12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 151

FIVE

The International Monetary System through the Lens of Emerging Asia

DOMENICO LOMBARDI

Our experience in the past has shown that international organizations have tended to approach all problems from the point of view of the advanced countries of the West.

—Sir Shanmukham Chetty, Indian Delegate,
Bretton Woods Conference, July 1944

As the world economy tries to leave behind the worst recession in almost a century, in 2010 emerging Asia has led the global recovery with stronger than anticipated growth, projected at 10.5 percent for the People's Republic of China (hereafter PRC) and 9.7 percent for India.[1] Building on the resilience of their aggregate demand, the soundness of their policy fundamentals, and their swift response to the crisis, emerging Asian nations have been able to weather the global crisis that sent other countries to the brink of economic depression.

This is in stark contrast to the financial crisis that affected the region in the late 1990s, which resulted in a sharp contraction in economic activity and, in some cases, social and political turmoil. In that crisis, the IMF intervened with programs that were subsequently found to be limited in size,

I would like to acknowledge helpful comments and suggestions from Kemal Derviş, Mario Lamberte, and Maria F. Viola, although they are not responsible for the contents of the chapter. I am grateful to Karim Foda and Sarah Puritz for excellent research assistance.

1. IMF (2010b). Overall, emerging and developing Asia is expected to grow at 9.4 percent in 2010.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 152

inappropriate in their conditionality, and inadequately designed to confront the challenges at hand.

In the recent crisis, and in contrast to the 1990s, the IMF has emerged forcefully, with unprecedented institutional vigor. Early on, it established a new facility—the Flexible Credit Line (FCL)—with uncapped access to its resources for countries with a sound track record, upgraded its lending framework, and pledged to better serve its members. Moreover, it has become the central international organization supporting the G-20 leader summits. It has provided critical analysis and recommendations that have served as the basis for concerted official actions crucial for containing the extraordinary potential devastation of the recent crisis. Although several countries have taken advantage of the institution's greater responsiveness, the only Asian nations that have turned to the IMF for help are Pakistan and Sri Lanka.[2] Singapore and the Republic of Korea (hereafter Korea), however, sought and obtained the support of the U.S. Federal Reserve through bilateral currency arrangements. Under the latter, each country was guaranteed access to US$30 billion directly from the issuer of the main international reserve currency to support their respective financial systems at a time when global capital markets had dried up.[3]

More recently, Korea, as the 2010 G-20 chair, proposed a new global swap regime as a way to encourage countries to reduce their reliance on exports, ultimately reducing the need for accumulating very large precautionary reserves.[4] Days after the Korean proposal, East Asian nations officially launched the Chiang Mai Initiative Multilateralization (CMIM)—a $120 billion regional currency swap agreement that covers Korea, the PRC, Japan, and the ten-member Association of Southeast Asian Nations (ASEAN).[5] The CMIM builds on the previous CMI bilateral swap network to facilitate simultaneous currency swap transactions by adopting a

2. In this chapter, *Asia* refers to the region's eastern and southern countries, unless otherwise noted.

3. See the press release of the U.S. Federal Reserve of October 29, 2008. In Singapore, the monetary authorities did not draw on the facility, which expired on February 1, 2010 (Monetary Authority of Singapore Press Release, January 28, 2010). In Korea, the central bank distributed the swap dollars to Korean banks through competitive tender in the form of temporary dollar liquidity support over 84–85 days. The Bank of Korea used a total of $16.3 billion, which it began returning to the Federal Reserve as of March 19, 2009, and had fully repaid on December 18, 2009 (see http://eng.bok.or.kr/eng/engMain.action).

4. See "South Korea Pushes for Global Swaps Regime," *Financial Times*, March 1, 2010.

5. See the Joint Press Release "Chiang Mai Initiative Multilateralization (CMIM) Comes Into Effect," available at www.boj.or.jp/en/type/release/adhoc10/un1003e.htm.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 153

common decisionmaking mechanism under a single contract and establishing an independent regional surveillance unit.[6] In other words, the CMIM represents an embryonic Asian Monetary Fund.

These recent developments underscore the difficulties that persist in the relationship between Asia and the IMF, despite various reforms that are either under consideration or have already been enacted. In this chapter, after a brief review of the IMF's role in the Asian crisis of 1997–1998, I explore the recent policy and institutional changes at the IMF by dissecting their impact on emerging Asia. I argue that Asia is more interested in pursuing reforms of the structural features of the international monetary system (IMS). As a result, institutional changes at the IMF disconnected from the latter objective are likely to be of limited interest to the region. I conclude that only by linking IMF reforms to structural changes in the IMS will the IMF gain strong support from emerging Asian countries as the central institution of a reformed and truly global monetary system.

Lessons from the IMF's Role in the 1997–98 Asian Crisis

In the recent history of the IMF, the 1997–98 Asian crisis stands as a landmark. It made clear that the domestic and international policy implications arising from the magnitude and scope of short-term capital flows had not, before then, been fully understood. As a result of the increasing integration of emerging economies with global capital markets, the Asian crisis was preceded by large capital flows into the countries later hit by the turmoil, and triggered by sudden shifts in market sentiment that led to massive capital flow reversals.[7]

The swift outflow of capital led to capital account corrections that were followed by contractions in aggregate demand and depreciation of the exchange rate, which, by interacting with domestic balance sheet

6. On the establishment of a regional surveillance unit in Singapore, see the Joint Ministerial Statement of the 13th ASEAN+3 Finance Ministers' Meeting, Tashkent, Uzbekistan, May 2, 2010 (www.aseansec.org/documents/JMS_13th_AFMM+3.pdf). On the CMI, see Kawai (2007) and Kuroda and Kawai (2002).

7. There is now a vast body of literature on the Asian crisis and the role of the IMF. See, for instance, Kawai and Rana (2009); Ito (2007); IEO (2003); Radelet and Sachs (1998); Sachs (1998); and Stiglitz (1998). This literature has investigated broader design issues of the IMF programs with the Asian countries hit by the crisis, including Fund recommendations for fiscal and monetary policies. While an exhaustive treatment of the Asian crisis is beyond the scope of this chapter, the aim of the following paragraphs is to briefly recall the main events of the crisis and the role that the IMF played.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 154

vulnerabilities, in turn induced further contractionary effects.[8] The potential of suddenly withdrawn international capital flows to induce fluctuations far wider than those typically observed in a current account crisis is, however, not the only lesson arising from the Asian crisis. The other lesson is the scope for financial contagion: a capital account crisis can rapidly be transmitted to other, often neighboring, economies via market spreads and capital flows.[9] This is exactly what happened to some countries in the region, such as Thailand, in the early summer of 1997.

Following the floating of the Thai baht in early July of 1997, the IMF announced a US$4 billion program in late August that, combined with bilateral lines of credit and loans from other multilateral organizations, amounted to US$17.2 billion. But as the overall package was falling short of the forward commitments owed by the Thai central bank (standing at US$23.4 billion), not to mention the outstanding foreign short-term debt of the private sector, market participants reacted unfavorably by further depleting the central bank's official reserves, which then prompted another depreciation of the baht soon after the program was announced.

In the weeks that followed, the crisis spread to other Asian countries, such as Korea and Indonesia, whose currencies, already under pressure, began to slide. Until early October 1997, the IMF still considered Indonesian fundamentals to be "sound." However, shortly after the approval of the IMF program with Indonesia, confidence in its domestic financial system began to wane when the closure of sixteen banks was announced. Market participants started to wonder what criteria had underpinned such a decision, while uncertainty clouded the terms of deposit guarantees and cast doubt on the broader political resolve of the then-president of Indonesia to thoroughly implement the agreed-upon program.

These factors, combined with further uncertainty about the effective size of the total external financing available, sent the country into a political, social, and economic tailspin. Overall, total foreign assistance agreed upon amounted to US$40 billion, of which one fourth would come from the IMF alone. However, unlike in the case of Thailand, the so-called "second line of defense" portion of funding, consisting of more than half of the overall package, would only kick in at the end of the three-year standby arrangement with the IMF, leaving market participants to wonder whether it would ever become available at all.

8. On this, see, among others, Cavallo and Frankel (2008).
9. On financial contagion, see, for instance, Kaminsky, Reinhart, and Vegh (2003).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 155

In reaction to an economywide crisis and in an attempt to compensate for a perceived lack of ownership by the highest echelons of the Indonesian leadership, a follow-up program with the IMF was agreed upon in January 1998. But it included so many policy measures unrelated to the root causes of the crisis that it suddenly became the archetype of what a well-designed IMF program should not be. Like the previous program, it still lacked a comprehensive strategy to tackle the critical areas of bank and corporate debt restructuring.

In November 1997, Korea became the latest Asian country to be hit by the crisis. Foreign investors stopped rolling over loans to the country's private sector, and the Bank of Korea depleted its reserves to enable the banking sector to repay its foreign loans. The next step was for Korea to request IMF assistance, which it obtained in the form of the newly created Supplemental Reserve Facility. Korea would be allowed Fund assistance equal to twenty times its own quota at the Fund, or US$21 billion, in addition to some US$36 billion pledged by other multilateral organizations and official creditors. As in the case of Indonesia, there was uncertainty whether, and under what terms, the second line of defense would materialize.

Like the IMF's program with Thailand, the one announced with Korea in early December failed to impress market participants. The Korean won continued to slide, until the G-7 resorted to "moral suasion," by asking foreign commercial banks to roll over their loans to the country. Only at this point did the situation finally begin to stabilize. In the words of the IMF's own Independent Evaluation Office, the "[IMF] program failed because it was underfinanced, given the absence of a coordinated rollover agreement and the immediate non availability of the second line of defense."[10]

As noted by Takatoshi Ito, while Thailand, Indonesia, and Korea differed in the soundness of their macroeconomic fundamentals, they all shared a high ratio of short-term debt to official reserves, with Korea's being the highest at 2.1, leaving their respective economies vulnerable to herd behavior by foreign investors.[11] In hindsight, the fact that all three countries recovered by 1999 highlights the important role that international liquidity shortages played, reflecting the potentially devastating effects of sudden reversals in speculative flows, and their scope

10. IEO (2003, 20).
11. See Ito (2007).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 156

for contagion, when interacting with the economic and financial vulnerabilities of each country.

In drawing the lessons from the Asian crisis, for the purposes of this chapter it is important to emphasize the need for timely, predictable, and adequate external financing that is consistent with the nature of a capital account crisis, rather than a current account crisis. In Asia in the late 1990s, external financing usually did not meet these criteria: uncertainty over the size, the terms, and the timing of the disbursements jeopardized the prospect of stabilizing the expectations of market participants. Ultimately, capital outflows continued, which led to (further) contractions in aggregate demands and (further) exchange rate depreciation, which then resulted, by interacting with balance-sheet vulnerabilities, in even more severe contractions in output, all of which spread to neighboring economies.[12]

In the aftermath of the crisis, various efforts were made to strengthen the regulatory framework and improve policy transparency and data dissemination. Building on the premise that well-regulated financial systems are essential for macroeconomic and financial stability in a world of increased capital flows, the Financial Sector Assessment Program (FSAP), a joint IMF and World Bank initiative introduced in May 1999, was set up to promote the soundness of domestic systems in member countries.

This initiative was complemented by related efforts, through the Reports on the Observance of Standards and Codes (ROSCs), to assess compliance with key international standards in areas such as accounting, auditing, anti–money laundering, countering the financing of terrorism, banking supervision, corporate governance, data dissemination, fiscal transparency, insolvency and creditor rights, insurance supervision, monetary and financial policy transparency, payments systems, and securities regulation.

These efforts finally culminated in the IMF's introduction of a new facility—the Contingent Credit Line (CCL)—designed to provide a precautionary line of defense for members with sound policies but who are vulnerable to contagion effects from capital account crises in other countries. This facility, however, failed to elicit active interest on the part of

12. In this regard, the IMF's Independent Evaluation Office (IEO 2003, 11) stated that contagion in the Asian crisis was an "important factor."

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 157

the membership owing to restrictions on the amount of unconditional access and the limited duration of the borrowing, and thus was discontinued in late 2003.

In part because of the resistance of Western countries, there was an insufficient effort, however, to put the lessons of the Asian crisis into the broader context of the reforms needed in the IMS following the extraordinary wave of economic and financial globalization of recent decades. As it turned out, the aforementioned efforts failed to attract any significant interest from emerging Asia, which instead started to accumulate large-scale reserves in defiance of the very purpose for which the IMF was established.

Struggling to Adapt: Economic and Financial Globalization in the Face of an Asymmetric International Monetary System

Despite the increasing adoption of flexible exchange rates since the demise of the Bretton Woods fixed exchange rate system in the early 1970s, the appetite for international reserves has grown steadily. As shown in figure 5-1, the demand for reserves increased fourfold in the first decade of the 2000s. Emerging Asia, in particular, accounts for the bulk of the sustained demand, although emerging economies outside of Asia have also contributed in the most recent years. Overall, the share of world total reserves of emerging Asian countries increased from 27 percent in 1995 to 48 percent in 2009 (see figure 5-2).

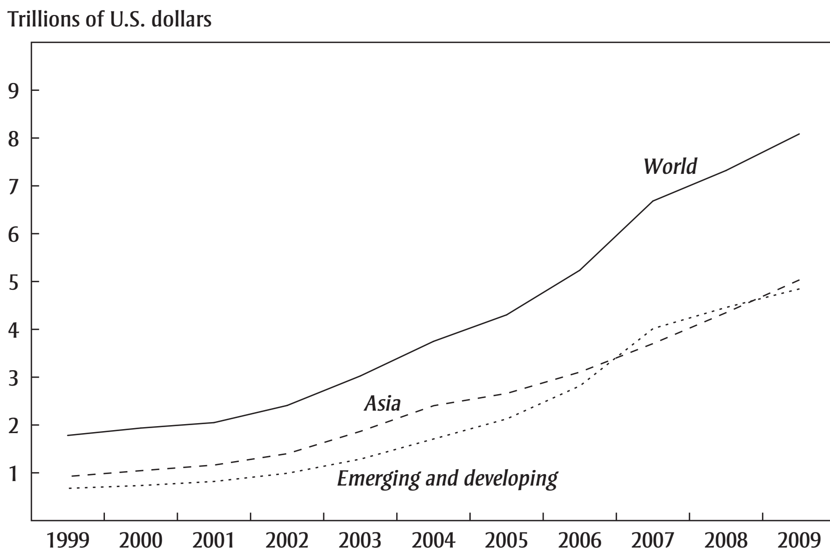
Notwithstanding some changes that have occurred in the three decades between 1980 and 2010, the current IMS has maintained key asymmetric features that have affected the increasing globalization of economic and financial activities driven by the integration of emerging economies. Specifically, they have produced a pattern of reserve accumulation by several emerging and developing economies (figure 5-1) that cannot simply be traced to traditional mercantilistic motives. The IMF estimated that in 2009 that global reserve accumulation driven by self-insurance accounted for between US$4 and 4.5 trillion—that is, some two-thirds of the world stock of international reserves and over half of the increase witnessed over the decade began in 2000.[13]

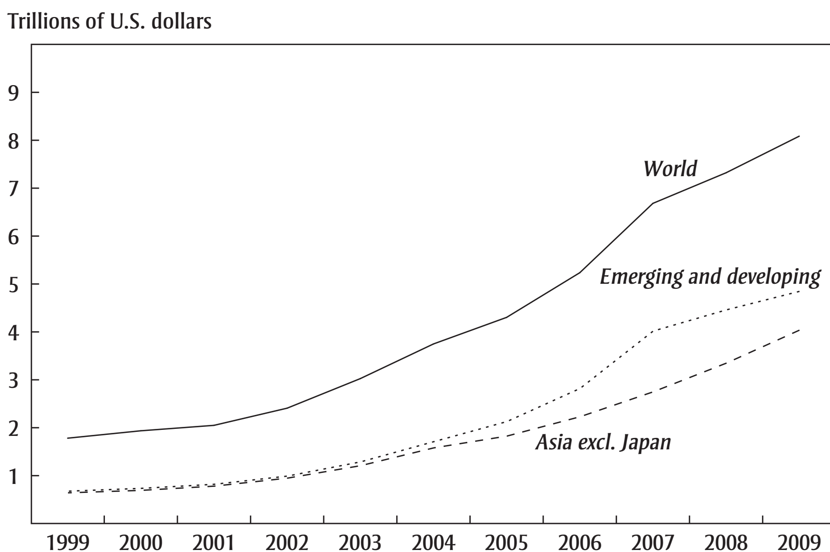
13. Mateos y Lago, Duttagupta, and Goyal (2009). Their estimates draw on Obstfeld, Shambaugh, and Taylor (2010).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 158

FIGURE 5-1. Stock of International Reserves, 1999–2009



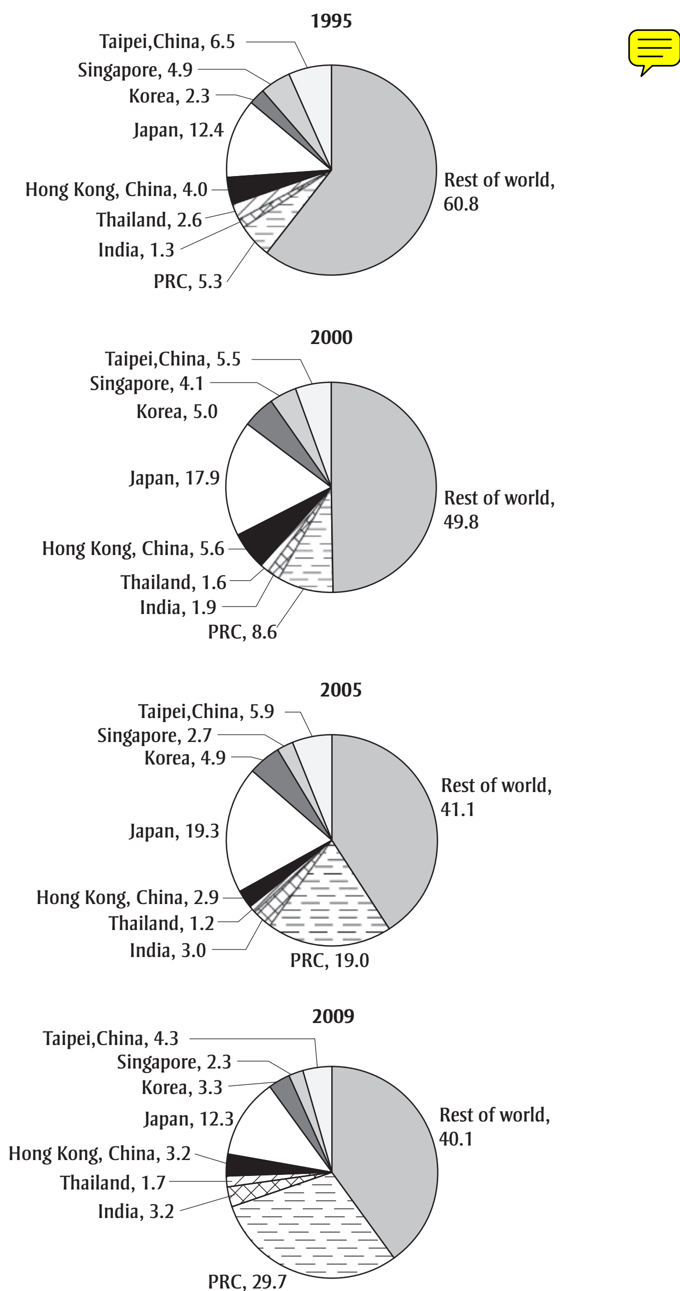


Source: IMF, Currency Composition of Official Exchange Reserves (COFER) (www.imf.org/external/np/sta/cofer/eng/index.htm); CEIC Data Company (www.ceicdata.com/); IMF, International Financial Statistics (IFS) (www.imf.org/external/pubs/cat/longres.cfm?sk=397.0).

Note: Asia includes the PRC; Hong Kong, China; India; Indonesia; Japan; Korea; Malaysia; the Philippines; Singapore; Taipei,China; Thailand; and Viet Nam.

1ST REVISE

FIGURE 5-2. Shares of World Reserves, Various Years



Source: CEIC Data Company (www.ceicdata.com/); IMF, International Financial Statistics (IFS) (www.imf.org/external/pubs/cat/longres.cfm?sk=397.0).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 160

The economic growth recorded in the past fifty years in emerging and developing countries has been coupled with an overall increase in volatility as a result of their integration into the global economy. On average, output volatility in these countries has, in fact, been higher than in OECD countries.[14] While developing and emerging economies have experienced higher volatility due to more frequent terms-of-trade shocks, they are also made more vulnerable by their trading with similarly volatile economies.

In this setting, international capital flows, which should facilitate the smoothing of real shocks on output, have instead acted as a source of further destabilization owing to their highly procyclical nature.[15] Compounding matters is the growing financial openness experienced by many developing and emerging economies and their vulnerability to contagion from the effects of financial crises experienced first in other economies. Not surprisingly, developing and emerging economies have therefore endured a number of currency and financial crises, like the one experienced by several Asian countries in the late 1990s.

The sustained financial globalization witnessed over the past few decades is in direct contrast to the remarkably little evolution observed in the IMS, which has, if anything, contributed to further reducing the policy space for emerging and developing economies, even as they have become more and more integrated in, and vulnerable to, the global economy.

Global Deflationary Bias

The first structural asymmetry of the IMS relates to the well-documented feature whereby any adjustment in external accounts hinges on deficit countries rather than those in surplus. This feature was first noted by Lord Keynes in his preparatory work for the Bretton Woods Conference in 1944. He pointed out that this fundamental asymmetry in the global monetary system would generate a global deflationary bias in the absence of any corrective mechanism.

Under the current system, it is usually not feasible for balance-of-payments surpluses and deficits to be resolved without negatively affecting global economic activity. When confronted with insufficient financing,

14. See the comparative analysis presented in Perry (2009), which includes Asian countries.

15. Prasad and others (2009); Kose, Prasad, and Terrones (2003).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 161

deficit countries must sooner or later make an adjustment to balance their external accounts; surplus countries, however, do not face a similar pressure, and do not have to engage in expansionary policies.[16]

Awareness of this asymmetry implicitly affected the founding discussions of the current IMS at the Bretton Woods Conference, resulting in the important, albeit ambiguous, wording in Article I of the IMF's Articles of Agreement, namely that the Fund's purpose is "to promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems."

This provision was operationalized by making the IMF the overseer of countries' efforts to liberalize their current account transactions and to uphold a rule-based system of exchange rates. That is, the Bretton Woods economic order aimed to spur international trade and growth by ensuring that all countries would make their currencies convertible for the purpose of current account transactions and that the exchange rate system overall would be stable. In a way, the global deflationary bias was being softened by setting the long-run foundations for an open global economy and by providing the Fund with the related regulatory powers.[17] In this setting, the IMF would provide temporary balance-of-payment financing to ease adjustment, though the basic asymmetry of the system would remain, as the burden of adjustment would ultimately fall on the deficit country.

After the Bretton Woods fixed parities system was abandoned in the early 1970s, the IMF's Interim Committee met in Jamaica in 1976 to begin

16. Keynes (1930; 1943). In Keynes's vision of international monetary cooperation, a fundamental premise was that creditor as well as debtor nations should assume responsibility for balance-of-payments adjustments. This symmetric aspect of the IMS was to be elaborated more clearly in his later plan for an international clearing union.

17. Article IV provides the legal foundation for members' obligations to the Fund with regard to the so-called code of conduct. Specifically, Section I stipulates the cooperative behavior required of a member country in formulating its own economic policies so as to contribute to an "orderly economic growth with reasonable price stability." Section III establishes the role of the IMF as the "overseer" of the international monetary system and outlines the obligations that each member must fulfill and for which the Fund must verify compliance. Article VIII stipulates another set of obligations associated with IMF membership; namely, it prevents any member from imposing "restrictions on the making of payments and transfers for current international transactions" without the approval of the Fund. It also prevents a member from engaging "in any discriminatory currency arrangements or multiple currency practices . . . except as authorized under this Agreement or approved by the Fund." Moreover, it states in detail the minimum information requirements for each IMF member.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 162

amending the institution's Articles of Agreement. The result was the Second Amendment of 1978, which set up the framework for the Fund's modern surveillance function. In essence, the new framework reflected the desire of member countries, led by the United States, to create a flexible regime that would foster adjustment through regular consultations, but would also allow individual countries to determine the conditions for attaining domestic macroeconomic objectives. This was a great change from the original Bretton Woods regime, whereby the anchor provided by the pegged exchange rate—overseen by the IMF—dictated the required internal adjustment.

In the absence of clear international rules, the new system placed great weight on consultations and national-level responsibility. At the heart of the revised Article IV, there was a shift in authority back to member countries and away from the IMF. The IMF still bore the task of helping its members avoid unilateral setting of exchange rate policies by individual nations, but the IMF was left with few, if any, instruments with which to fulfill this task.[18]

Fund efforts to build a genuine multilateral consultation system suffered another blow with the initiative of some key members—France, Germany, Japan, the United Kingdom, and the United States—to set up their own multilateral surveillance forum over monetary and exchange rate policies in 1982. While they agreed that the exercise would be conducted in cooperation with the IMF, it became clear at the start that the G-5 (which would become the G-7 with the inclusion of Italy and Canada) would play a lead role.

The lack of an authentic multilateral forum to discuss and formulate policy responses to global developments has thus left developing and emerging economies more vulnerable in an increasingly interdependent world. In the context of the global consultations on IMF reform organized by civil society in 2007 and 2008, participants remarked on the increasing spillover effect across economies and the growing need for multilateral surveillance.[19] They complained, however, that advanced countries do not take into adequate consideration how their policy spillovers affect the rest of the global economy.

18. See Lombardi and Woods (2007).

19. The consultations were organized by the Centre for International Governance Innovation, New Rules for Global Finance, and the University of Oxford. See Lombardi (2008).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 163

International Currency Bias

An additional structural source of instability in the IMS is the central position that the U.S. dollar enjoys as a global reserve asset. By 2010, U.S. dollar–denominated assets made up about 60 percent of world reserves, though the share of the U.S. dollar has declined over time as a result of the rise in euro-denominated assets, as figure 5-3 shows. The reliance on the domestic currency of a single country as the principal international reserve asset makes it difficult for U.S. policymakers to reconcile, in the long run, their domestic macroeconomic goals with the (increasing) need for a net supply of dollar-denominated international assets, leaving the IMS vulnerable to unilateral adjustments in the economic policies of the issuer country.

The implication of the de facto fiduciary dollar standard has been, in practice, that the United States has run current account deficits and other countries have accumulated net dollar assets; yet this same deficit in the U.S. current account tends to weaken confidence in the dollar as an international reserve asset, since it requires corrections at some point to restore its credibility; all the while amplifying the system's deflationary bias.[20] It is true that U.S. dollars can and have also been supplied through the capital account, with the United States accumulating foreign currency–denominated assets by investing abroad, and the rest of the world acquiring dollar assets. There is demand for "safe" U.S. treasury bonds. But the accumulation of these U.S. liabilities by foreign central banks or other financial institutions requires the United States to run a budget deficit.[21] Caught between the conflicting needs of achieving domestic objectives or maintaining the international public good of monetary stability, U.S. authorities will likely opt for the former, if they have to.

But as long as confidence in the dollar remains stable, U.S. policymakers enjoy the unique privilege of running monetary policies relatively independently from the determinants of exchange rates with other currencies, and thus they are able to finance large amounts of imports through the issuance of low-interest liquid liabilities—a modern form of international seigniorage made possible by the dollar's preeminent position in the global

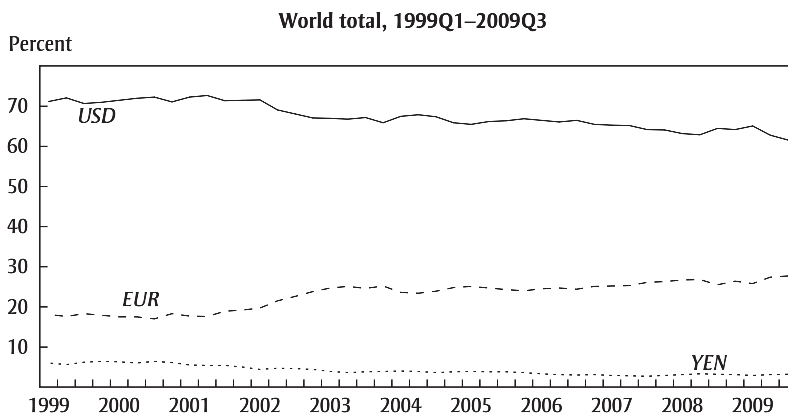
20. This is a revised version of the so-called "Triffin Dilemma." See Triffin (1961; 1968). In theory, it would also be possible for the United States to export long-term capital matched by short-term placements of capital-importing countries in dollar assets.

21. See, among others, Akyüz (2010).

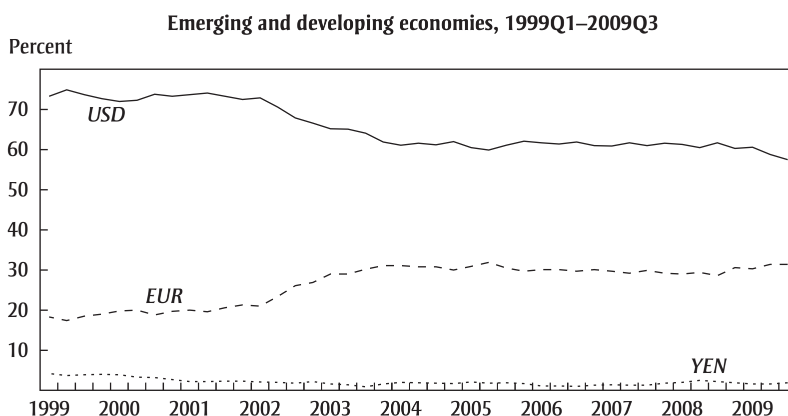
1ST REVISE

FIGURE 5-3. Currency Composition of Reserves, 1999–2009

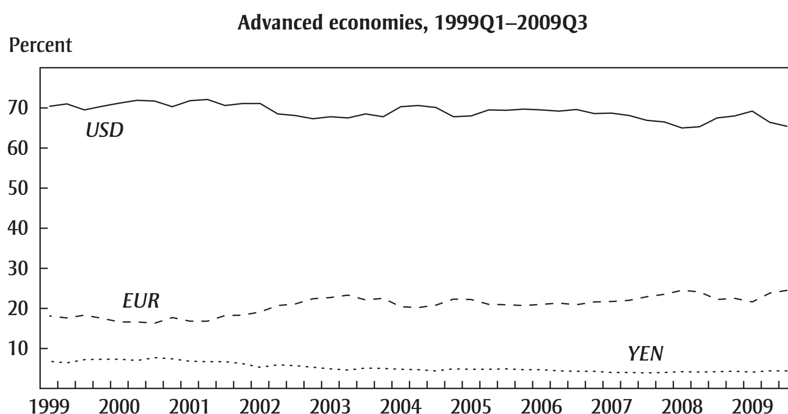
World total, 1999Q1–2009Q3



Emerging and developing economies, 1999Q1–2009Q3



Advanced economies, 1999Q1–2009Q3



Source: IMF, Currency Composition of Official Exchange Reserves (COFER) (www.imf.org/external/np/sta/cofer/eng/index.htm).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 165

reserve system. In contrast to Keynes's global deflationary bias, the issuer of the principal international reserve currency might even contribute to an inflationary bias, as long as the foreign demand for dollar-denominated assets generates downward pressure on U.S. interest rates.[22]

The status of the dollar as the main global reserve asset was formally codified in the Bretton Woods fixed exchange rate system by setting the U.S. currency as the anchor for the IMS, with all other currencies required to fix their value in relation to the dollar. After the demise of the Bretton Woods system in 1973, U.S. policymakers benefited from increasingly greater macroeconomic policy space as the previous, albeit imperfectly binding, constraint that countries could convert dollars into gold disappeared.[23] In turn, the IMS evolved from a "gold-exchange standard" to a "fiduciary dollar standard."[24]

At the height of the 2007–09 global financial crisis, despite the fact that the United States was at the center of the financial turmoil, the dollar enjoyed remarkable stability thanks to the sustained international demand for safe assets, mainly in the form of U.S. Treasury bills, with the U.S. central bank even acting as a provider of international liquidity to selected emerging economies.[25] In contrast, economies that do not issue international reserve assets cannot supply a monetary base without facing a decline in the external value of their respective currencies, which severely constrains the scope of their policy interventions.

In this regard, the IMS has been remarkably resistant to change. The only relevant development was the creation, under the auspices of the IMF, of the special drawing rights (SDRs) in 1969 to support the Bretton Woods fixed exchange rate system. SDRs supplemented the limited international supply of the two key reserve assets, namely gold and the U.S. dollar, which were still insufficient in the face of ongoing world trade expansion and financial development.[26]

22. See Ocampo (2010).

23. For an analysis of how the gold constraint did not fully operate on U.S. economic policies, see Eichengreen (2006).

24. See Ocampo (2010) for an excellent treatment of this issue.

25. As a result, interest rates on U.S. Treasury bills even declined throughout the crisis, as noted in various issues of the IMF's Global Financial Stability Reports.

26. The value of an SDR is currently based on a basket of four key international currencies: the dollar, the euro, the yen, and the pound sterling. SDRs are costless assets. However, if a member's SDR holdings rise above its allocation, the member earns interest on the excess; conversely, if a member holds fewer SDRs than allocated, it pays interest on the shortfall. In other words, SDRs provide the option of attaining a loan without maturity, whose cost is indexed to money market interest rates.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 166

The SDR is not a currency per se; nor is it a claim on the IMF. It represents only a potential claim on the freely usable currencies of IMF members. Allocations of SDRs are determined on the basis of a long-term global need to supplement existing reserve assets, and have been made only twice since they were established. The first allocation, for a total amount of SDR 9.3 billion, took place from 1970 to 1972 and was distributed in yearly installments. The second, for SDR 12.1 billion, took place from 1979 to 1981, again in yearly installments.

In contrast with the obligation set forth in Article VIII about "making the special drawing right the principal reserve asset in the international monetary system," SDRs have played a marginal role as international reserves, which is symptomatic of the decline in the IMF's perceived importance. It is significant, in light of the need for reserve assets in the past few decades, that no additional SDRs were issued before 2009 (see next section). Even the stock of the two previous allocations represented a very small fraction of total international reserves.[27]

By its very nature, the SDR implies a mainly passive role for the IMF. Once a decision on an allocation of SDRs has been made by member countries representing at least 85 percent of the institution's voting power, the IMF has no discretionary control over how the allocation is used. As the system currently stands, exchanges of SDRs for national currencies may take place in two ways: as voluntary bilateral transactions or as designations by the IMF of member countries with an external surplus that may accept SDRs in exchange for their currencies. So even if the IMF plays a brokering role by matching demand and supply of SDRs, the transactions remain essentially bilateral.

Institutional Bias

A third asymmetric element of the IMS is associated with the governance of the institution charged with the regulatory task of overseeing it. The current distribution of voting power within the IMF, as has been well documented, is heavily biased toward Western countries and points to a serious legitimacy gap.[28] The G-7 countries, for instance, together account for almost half of overall voting power and thus constitute the most powerful

27. As of June 2008, SDRs accounted for less than 0.5 percent of global (non-gold) reserves. See Truman (2010).

28. See Bryant (2010) and Mirakhor and Zaidi (2009), among others. These aspects have also been the focus of the 2009 global consultations on IMF reform. See Lombardi (2009).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 167

TABLE 5-1. Aggregate Power of Informal Coalitions on the IMF Executive Board

Informal coalitions	*Voting power (country based)*	*Voting power (constituency based)*
G-7[a]	44.39	46.05
EURIMF[b]	32.02	33.34
G-11[c]	—	27.01
Asia-Pacific group[d]	18.95	18.95

Source: Author's elaborations from www.imf.org. Voting power data as of March 22, 2010.

a. The country-based voting power is the sum of the votes of the United States, Japan, Germany, France, the United Kingdom, Italy, and Canada. The constituency-based voting power includes, in addition to the voting shares of the United States, Japan, Germany, France, and the United Kingdom, those of the constituencies led by Italy and Canada.

b. The country-based voting power is the sum of the voting power of Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom. The constituency-based voting power is the sum of the voting power of the chairs led by Belgium, Denmark, France, Germany, Italy, the Netherlands, Spain, and the United Kingdom.

c. The constituency-based voting power is the sum of the voting power of the chairs led by Argentina, Brazil, the PRC, Egypt, India, Iran, Rwanda, Sierra Leone, Saudi Arabia, and Thailand. If the Central American constituency, currently led by Spain, were to be included, the aggregate voting power would increase to 31.45 percent. Country-based voting power is blank because the G-11 is a chair-based coalition. See Woods and Lombardi (2006).

d. The country-based voting power is the sum of the voting power of India, Bangladesh, Bhutan, Sri Lanka, Japan, the PRC, Brunei Darussalam, Cambodia, the Fiji Islands, Indonesia, the Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, the Philippines, Singapore, Thailand, Tonga, Viet Nam, Australia, Kiribati, Korea, the Marshall Islands, the Federal States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, and Vanuatu. The constituency-based voting power is the sum of the voting power of the chairs led by the PRC, Korea, India, Japan, and Thailand.

bloc around which to aggregate additional votes, as shown in table 5-1. The aggregation of the votes of EU member states and non-European G-7 states largely exceeds a (simple) majority of votes, which is sufficient to pass most decisions, including the election of the managing director of the Fund.

The asymmetric distribution of voting power is magnified by a skewed pattern of representation that privileges advanced economies, mostly European. As shown in table 5-2, European countries are represented by eight or nine chairs, depending on the intra-constituency rotational patterns, while most Asian countries are clustered into two constituencies, led by India and Thailand, respectively. There are, in addition, two single-country Asian chairs, namely the PRC and Japan. In 2010 the aggregate voting power of all four chairs stands at 15.53 percent, which increases to 16.86 percent when Korea's votes are included.

Yet the chair of the constituency to which Korea belongs rotates with Australia. This makes it unlikely that the former would steer the chair's

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 168

TABLE 5-2. IMF Executive Board Chairs

Country	*Voting power*	*Legal status*	*Internal governance arrangements*
United States	16.74	appointed	
Japan	6.01	appointed	Each executive director is appointed by the respective country authorities and serves at their pleasure.
Germany	5.87	appointed	
France	4.85	appointed	
United Kingdom	4.85	appointed	
PRC	3.65	elected	
Saudi Arabia	3.16	elected	Single-country constituencies
Russia	2.69	elected	
Belgium	5.13	elected	Multi-country constituency chaired by Belgium
The Netherlands	4.77	elected	Multi-country constituency chaired by the Netherlands
Spain	4.44	elected	Multi-country constituency with chair rotating among Mexico, Spain, and Venezuela
Italy	4.10	elected	Multi-country constituency chaired by Italy
Canada	3.63	elected	Multi-country constituency chaired by Canada
Thailand	3.52	elected	Multi-country constituency with chair rotating among Indonesia, Malaysia, Singapore, and Thailand
Korea	3.44	elected	Multi-country constituency with chair rotating between Australia and Korea
Denmark	3.43	elected	Multi-country constituency with chair rotating among Denmark, Finland, Iceland, Sweden
Egypt	3.19	elected	Multi-country constituency chaired by Egypt
Sierra Leone	3.01	elected	Multi-country constituency with chair rotating among all members
Switzerland	2.78	elected	Multi-country constituency chaired by Switzerland
Brazil	2.42	elected	Multi-country constituency chaired by Brazil
Iran	2.42	elected	Multi-country constituency chaired by Iran
India	2.35	elected	Multi-country constituency chaired by India
Argentina	1.95	elected	Multi-country constituency with chair rotating among Argentina, Chile, and Peru
Rwanda	1.34	elected	Multi-country constituency with chair rotating among all members

position any way other than that supported by Australia, the largest shareholder within the constituency. Korea's membership in the Australian constituency therefore poses a trade-off. On the one hand, it enables it to leverage the weight of a relatively large shareholder like Australia, which recently agreed to rotate the chair of the constituency with the Asian country, providing the latter with unprecedented visibility and prestige on the

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 169

IMF Board. On the other hand, it may entail some dilution of the voting power that Asia can leverage whenever it intends to promote a policy agenda that Australia and New Zealand, another key country of the constituency, do not wish to support.

Recent research has underscored the importance of informal arrangements in IMF governance, and thus of relevant lobbying and agenda-setting outside the sphere of the formal governance channels.[29] In this setting, cross-coalitions tend to be a pervasive feature of the IMF Board's informal politics, with every chair being a member of one or more informal groupings. The aim is to leverage preferential access to Fund senior management and staff to affect the institutional agenda at an early stage, before it is formalized in specific items brought before the Executive Board.

Asian chairs have their own informal grouping—the Asia-Pacific Group—which is used by the Chinese, Indian, Japanese, Korean, and Thai representatives for exchanging views and discussing issues of common interest, with the aim of shaping a common position. A recent comparative analysis of informal coalitions on the IMF Board, however, has found that the leverage of this group has had a limited effect on Board dynamics compared to that of the G-7 or the EU, because of both its relative diversity and its limited voting power.[30] As shown in table 5-1, this group is the least powerful on the IMF Board, although it has been quite successful in forging a common view on the need to claim a greater role for the region in the governance of the IMF through reforms of the quota system and current representation on the Executive Board.

All in all, the skewed distribution of voting power, magnified by patterns of governance within constituencies and the operation of informal coalitions, makes for substantial asymmetry. A small number of members hold the majority of votes and promote decisions that affect the membership at large. This same small group may also unilaterally exclude itself from compliance, again because of its majority control over the decision-making of the institution. Accordingly, the relatively minor share of voting power of emerging Asian members jeopardizes incentives for their meaningful engagement in the institution's deliberations.

IMF governance cannot be interpreted separately from its policies or the implementation of its regulatory powers. Since many emerging Asian

29. Woods and Lombardi (2006).
30. Woods and Lombardi (2006).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 170

countries have carried inadequate weight in Fund decisionmaking, their positions, even on matters in which they may have the most incisive and immediate experience or knowledge, are less likely to be incorporated in the IMF's own policies and programs.[31] This asymmetry is most noticeable as it pertains to Fund surveillance. As part of the global consultations on IMF reform initiated by managing director Dominique Strauss-Kahn in the spring of 2009, participants concurred that the institution's ability to predict the recent international crisis was hindered by the asymmetric role of the United States in IMF governance. But had the IMF been able to foresee the unfolding of the U.S. financial crisis, it still would not have had any leverage over its own largest shareholder. The United States tended to want the IMF to focus on the Chinese exchange rate—an important part of the U.S. international economic agenda, but still merely one aspect of the global imbalance problem.[32]

The approval of the 2007 Surveillance Decision with the alleged abstention of two Eastern and Central Asian chairs is another case in point. The decision was intended to offer greater guidance on the conduct of exchange rate policy by making clear the notion of exchange rate manipulation, when and how it is desirable to intervene in foreign exchange markets, and the need to avoid exchange rate policies that result in external instability. It also included some appraisal indicators to help the IMF determine when it needs to initiate discussions with members about their economic policies, requiring the Fund to label currencies that deviate significantly from equilibrium as "fundamentally misaligned." Emerging market chairs, most notably from Asia, however, felt targeted by the decision and resented that its content and timing were motivated by the need to sanction their policies.[33]

31. See, for instance, the analysis developed in Woods (2009).

32. Along similar lines, Miranda Xafa, a former member of the IMF Executive Board, notes that the fact that the financial crisis originated in advanced economies, which in practice tend to be outside of the purview of the Fund's crisis prevention efforts, contributed to complacency. She concludes that more even-handed surveillance would have enhanced the Fund's effectiveness (Xafa 2010).

33. Other instances regarding the link between IMF governance and policies were documented in the context of the 2009 global consultations on IMF reform. Concerns were raised about influential member countries using their power in some cases to influence Fund policy in their favor. For example, it was pointed out that there have been cases of programs with policy measures unnecessary for resolving a country crisis, but indicative of contentious areas in bilateral commercial relations with major creditor countries. The conditionality of the IMF program with Korea on liberalizing imports of car components, a contentious item in commercial relations between Korea and the United States for several years, is a case in

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 171

Another instance in which the IMF's governance has affected the asymmetries of the IMS is that, against the need for increased reserves, the issuance of "synthetic" assets such as SDRs requires approval of 85 percent of the voting power of the IMF membership. Besides the potential veto that such a large supermajority affords to a few countries or groupings, the governance arrangements underpinning the creation of SDRs have reduced the IMF's ability to be responsive to the liquidity needs experienced by some segments of its membership. At the same time, it embeds a tension in the institutional mandate to pursue systemic stability, as it leaves decisions on regulating global liquidity in the hands of those countries issuing the hard currencies used as international reserve assets. To the extent that the distribution of quotas is skewed toward some segments of the membership, general allocations of SDRs would only reinforce that fundamental asymmetry, given that they are usually allocated on the basis of a member's quota.

Innovations at the IMS

Building on the framework developed in the previous section, this section reviews recent and ongoing reforms at the IMS by assessing their broader implications for emerging Asia.

Global Deflationary Bias

In September 2009, leaders at the G-20 summit in Pittsburgh agreed to the so-called "Framework for Strong, Sustainable, and Balanced Growth," proposed by the United States. Through this framework, they pledged to devise a method for setting objectives, to develop policies to support such objectives, and to assess outcomes through mutual evaluation. The IMF's involvement has been sought in providing analysis on various national or regional policy frameworks and how they fit together. The end goal is

---

point. Others have included capital account liberalization and the privatization of major services or banks. Similarly, participants noted that major shareholders have tried to use Fund-supported programs as a vehicle to force borrowing countries to adopt policies that would generate adequate balance-of-payments surpluses to service their debt obligations, as in the case of the programs with Indonesia. It was clear to observers inside and outside the Fund alike that the program would generate a sizable shock and exacerbate the effects of the financial crisis on the country's real economy, and yet the primary objective of the assistance program was to generate as great a balance-of-payments surplus as possible, in as little time as possible, to guarantee that outstanding creditors would be repaid. See Lombardi (2009).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 172

"strong, sustainable, and balanced growth" in which the improvement of living standards in emerging market and developing countries is supposed to be a critical element. To accomplish this, the G-20 has also devised a standard template for national policy frameworks that will allow countries to indicate key forward-looking elements of their policy plans and to outline the expected impact of policies both on their domestic economy and, more broadly, on their national forecasts for key economic variables for the subsequent three to five years.

Based on country submissions received between January and March 2010, the IMF has been tasked with uncovering inconsistencies in national assumptions, analyzing the mutual compatibility of various country frameworks and policies, and calculating the aggregate impact of the national frameworks and policies on the global economy. The bulk of this work has fed into an initial report by the Fund for the G-20 deputies and for their finance ministers and central bank governors. It has developed two alternative scenarios—one upside and one downside—to explore the benefits of further G-20 policy action toward their shared objectives of strong, sustainable, and balanced growth.[34] Following the completion of the initial phase of the mutual assessment process at the June 2010 summit in Toronto, the G-20 has focused on the implementation aspects of the agreed-upon policies as well as on follow-ups.[35]

This is the first relevant multilateral surveillance exercise on a global scale in recent history, and it introduces two main innovations. First, it is the first time in recent history that the United States has agreed, even proposed, to submit itself to a full peer-review process. Even in the context of the Jamaica Amendment, when the current IMF surveillance framework was discussed and approved in 1978, the United States only reluctantly accepted its basic premise.[36] Second, it implies a shift from the recent past,

34. In a follow-up assessment shared with the G-20 leaders at the Toronto summit, the IMF has quantified the benefits from mutually consistent and collaborative policy actions in terms of global GDP growth higher relative to the G-20 baseline by 2.5 percent over the medium term, worldwide employment gains in the neighborhood of 30 million additional jobs, and 33 million people lifted out of poverty (IMF 2010a).

35. The role of the IMF in this process is spelled out in IMF (2009).

36. Earlier, under the Bretton Woods system, every member country that had not made its currency fully convertible had to consult with the IMF. Consultations went on even after countries had moved toward full convertibility, in response to the desire of the United States for an "activist" IMF that would monitor European economies—owing to counterbalancing European demands—on a strictly "voluntary" basis and while monitoring the United States as well (the first such consultation was held with the United Kingdom in 1961). See Lombardi and Woods (2007).

1ST REVISE

when multilateral surveillance on the global economy was in practice dealt with in the more restricted forum of the G-7 nations. In contrast, the G-20 convenes all the systemically important countries, including the largest emerging Asian economies—the PRC, India, and Indonesia, along with Korea and Japan—providing an immediate, alternative platform through which Asia can engage, in the face of an institution like the IMF still perceived to be dominated by Europe and North America. In fact, the choice of the G-20 as the primary forum for international policymaking was meant to promptly accommodate rising powers, mainly from Asia, in the multilateral system.[37]

There are, however, two main challenges for G-20-led multilateral surveillance. First, the exercise appears, so far, mainly geared toward making national policymakers aware of the international spillovers of their policies and providing a context in which they can exercise mutual pressure, as the Toronto and Seoul summits exemplify.[38] Whether and to what extent this will feed into substantially revised national frameworks, along the lines, for instance, recommended in the upside scenario envisaged by the IMF, is highly uncertain because it presupposes a shared vision of the costs and benefits from coordination. This may require some countries to grow less in order to preserve the overall stability of the global economy and/or to accept higher risks by revisiting their precautionary reserve accumulation policy. Or it may require some other countries not to withdraw their stimulus early on in order to preserve their contribution to the global economic recovery, even if this may result in temporary higher fiscal deficits than are politically feasible. The G-20 countries have committed to a peer-review process for their economic policies and to a broadly defined policy objective. This is not the same as committing to numerical policy targets—consistent with quantitatively defined objectives set for the overall group—for which they can be held accountable in a multilateral forum. Even if the Toronto summit produced some broad numerical goals with regard to reducing fiscal deficits, they largely reflect commitments already taken by the respective national authorities.[39]

37. Mo and Kim (2009).

38. The respective communiqués are available at www.g20.utoronto.ca/2010/g20_declaration_en.pdf and www.g20.utoronto.ca/2010/g20seoul.html.

39. In fact, at the G-20 Finance Ministers meeting in Gyeongju, Korea, on October 23, 2010, the secretary of the U.S. Treasury proposed to target a predefined ratio of current account balance over GDP in the process of adjusting external imbalances but his proposal did not elicit support from other systemic economies. See "Trade Imbalance Targets Elude G20," *Financial Times*, October 23, 2010.

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 174

The effectiveness of this multilateral exercise will also hinge on the extent to which emerging Asian countries are willing to fully articulate their vision of how international economic coordination should work in practice. This is no small task, especially for a group of countries with a historically weak sense of regional identity. If Asia does not rise to the occasion and express some collective initiative with regard to the G-20 agenda, there is a real risk that the G-20 will become a mouthpiece for Europe and North America, which is in direct opposition to the reason it was deemed the premier forum for global economic policymaking in the first place.

International Currency Bias

As the crisis unfolded and developing countries' economies increasingly needed to bolster their reserve asset position, the G-20 supported a general allocation of SDRs equivalent to $250 billion, and the IMF quickly implemented the leaders' proposal, effective August 28, 2009.[40] The potential credit that SDR holdings provided was meant as liquidity support with unconditional financing, aimed at limiting the need for adjustment and giving greater space to countercyclical policies in countries with no hard currency.

For countries that might be tempted to accumulate greater reserve assets in response to the systemic uncertainty stemming from the crisis, the more general aim was to ease worry by managing their currency exchange rates so as to generate large trade surpluses. Yet, because the allocation of SDRs follows the distribution of voting power across the membership, those emerging market economies whose quotas are underrepresented also received fewer SDRs. All in all, the SDRs allocated to emerging Asia totaled $28 billion—that is, almost 1 percent of their total 2008 reserve stock or slightly less than 5 percent of the aggregate variation in the 2008–2009 stocks. For individual countries, however, the allocation of SDRs as compared to the variation of reserve stocks ranges from a low of 2 percent for the PRC to a high of 84 percent for Malaysia, as reported in table 5-3.[41]

40. In addition, the Fourth Amendment to the IMF's Articles of Agreement, which allows a special one-time allocation of SDRs, went into effect on August 10, 2009, as a separate measure. This special allocation, which was made to IMF members on September 9, 2009, was in the amount of SDR 21.5 billion (about $33 billion).

41. Low-income countries received about $20 billion. To put this figure in perspective, it by far exceeds the World Bank's International Development Association (IDA) commitments and support to low-income countries, which totaled US$14 billion in the fiscal year that ended in June 2009.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 175

TABLE 5-3. 2009 SDR Allocations for Emerging Asian Countries
$US billions

	Foreign exchange reserves			*SDR allocations*		
Country	*2008*	*2009*	*Annual change*	*Nominal amounts*	*Percent of 2008 stock*	*Percent of annual change*
PRC	1,946.03	2,399.20	453.17	10.65	0.55	2.35
India	246.60	258.58	11.98	5.20	2.11	43.42
Indonesia	49.34	60.57	11.23	2.75	5.57	24.46
Korea	200.48	265.20	64.72	3.68	1.83	5.68
Malaysia	90.61	92.87	2.26	1.90	2.10	84.27
Philippines	33.05	36.60	3.55	1.14	3.44	32.03
Singapore	173.65	186.01	12.36	1.15	0.66	9.29
Thailand	108.32	133.60	25.28	1.40	1.29	5.53
Viet Nam	23.88	NA	NA	0.42	1.76	NA

Source: Author's elaborations from www.imf.org. Reserves data are from IMF IFS.
Note: SDR allocations for 2009, which include both general and special allocations, have been converted into U.S. dollars at the September 2009 average exchange rate, available at: www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm.

In light of recent developments, a UN Commission of Experts has called for expanding the role of the SDR through regular or cyclically adjusted issuance of SDRs, as a way of managing international economic risks posed for countries that do not issue hard currencies (see United Nations 2009).

Because SDRs are an artificial unit of account with limited scope for use within the existing parameters, the head of the Chinese central bank recently proposed a significant overhaul to increase the role of the SDR.[42] Specifically, he has recommended: transforming the SDR from a "synthetic" basket currency into one backed by actual assets; designing a settlement system between the SDR and national money to make the SDR easily "convertible" into national currencies; and strengthening the link between the SDR and the IMF, its issuing institution. It bears mention that the Chinese proposal, in this regard, is based on the underlying premise of a truly supranational IMF that oversees the IMS. For this reason, the proposal also envisages a political bargain between structural reforms of the IMS and the restoration of the IMF's centrality in it.

42. Zhou (2009).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 176

In the interim, the IMF has expressed some interest in proposals for strengthening the SDR,[43] and the IMF managing director has suggested that the yuan could be included in the basket of currencies that makes up the SDR as soon as its external value becomes market based.[44] The 2011 French presidency of the G-20 aims to strengthen the role of the SDR, and the IMF's executive board is already assessing relevant options (see IMF 2011).

Institutional Bias

Since a country's share of quotas is the key to decisionmaking power and provides the metrics for access to Fund financing and for the allocation of SDRs, calls for IMF reform have focused mostly on realigning the distribution of voting power to better represent the rising economic weight of many emerging market economies.

In March 2008, a package of quota and voice reforms was agreed on by the IMF's Executive Board and was endorsed by the Board of Governors one month later. The reform builds on an initial step taken by the IMF's membership in September 2006 to grant ad hoc quota increases to four countries—the PRC, Korea, Mexico, and Turkey. The 2008 reform package foresees ad hoc quota increases for fifty-four countries that were underrepresented under the new quota formula, a tripling of basic votes and provisions aimed to ensure that the share of basic votes remains proportionate to total voting power. Finally, it envisages the allocation of additional resources for the two largest African constituencies through an additional alternate executive director.[45]

The 2008 reform package now awaits approval by three-fifths of the membership—that is, 112 member countries representing at least 85 percent of total voting power—before it can go into effect. As of the end of 2010, a total of 101 members, equivalent to about 83 percent of total vot-

43. The managing director of the IMF has stated that "SDR allocations could be made more responsive to global developments and flexible to country circumstances." See Strauss-Kahn (2009).

44. See "IMF Chief Says Would Consider Yuan for SDR Basket," Reuters, June 28, 2010.

45. Basic votes reflect the principle of equality among states and are meant to provide the smallest members of the institution with a stronger voice in deliberations. While basic votes stood at 11 percent in proportion to the total voting power of the institution in its early days, their relative weight has subsequently declined through successive general quota increases to the current 2 percent.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 177

TABLE 5-4. Quotas of Selected Asian Countries

Country	*Actual quota shares*	*Post–second round quota shares*	*Calculated quota shares (based on data through 2005)*
PRC	3.72	4.00	6.39
India	1.91	2.44	2.00
Indonesia	0.96	0.87	0.90
Korea	1.35	1.41	2.25
Malaysia	0.68	0.74	0.86
Philippines	0.40	0.43	0.47
Singapore	0.40	0.59	1.03
Thailand	0.50	0.60	0.84
Viet Nam	0.15	0.19	0.23
Subtotal	**10.07**	**11.28**	**14.95**
Japan	6.12	6.56	8.03
Total	**16.19**	**17.84**	**22.98**

Source: www.imf.org

ing power, had accepted. Although the proposed reform package helps in realigning quota and voting shares, actual quota shares for many members remain considerably out of line with their calculated quota shares. As reported in table 5-4, the 2008 reform package entails slightly more than a 1 percent shift of voting power to emerging Asia. Based on calculated quotas, however, emerging Asia should have received an increase of almost 5 percent.

This supports the view of those who have argued that governance reforms have not yet gone far enough in winning the confidence of emerging market economies. Reacting to these circumstances, in April 2009, the International Monetary and Financial Committee called for a prompt start to the Fourteenth General Review of Quotas so as to complete it by January 2011—some two years ahead of the original schedule. In September 2009, at the G-20 summit in Pittsburgh, leaders endorsed a greater shift in voting power in favor of "dynamic" economies.[46] At the G-20

46. The relevant excerpt from the G-20 communiqué states that "the distribution of quotas should reflect the relative weights of its members in the world economy, which have changed substantially in view of the strong growth in dynamic emerging market and developing countries. To this end, we are committed to a shift in quota share to dynamic emerging market and developing countries of at least five percent from over-represented to under-represented countries using the current IMF quota formula as the basis to work from." The communiqué is available at www.pittsburghsummit.gov/mediacenter/129639.htm.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 178

meeting in Gyeongju, in October 2010, the finance ministers agreed on a package of reforms that went beyond reasonable expectations by endorsing a shift of about 6 percent of voting power to dynamic and underrepresented economies.[47] According to this agreement, already approved by the institution's executive board and board of governors,[48] the PRC will become the IMF's third shareholder, with Brazil and India among the top ten members on the basis of their revised quotas. Moreover, the quota review, to enter into effect by the IMF's annual meetings in 2012, will be linked to a recomposition of the board itself, with Western Europeans giving up two seats at any given time.[49]

Another area where the IMF has introduced far-reaching reforms is its lending framework, with the doubling of access limits, simplification of conditionality, and the establishment of a new facility for crisis prevention, the FCL, which provides qualified countries with large, upfront, and potentially uncapped access to Fund resources with no (ex post) conditions. The FCL can approve for countries meeting pre-set qualification criteria.[50]

Late in 2010 the IMF's executive board enhanced its crisis prevention toolkit by increasing the duration of the FCL and establishing a new Precautionary Credit Line (PCL) for members with "sound policies who nevertheless may not meet FCL's high qualification requirements."[51] The PCL

47. The communiqué is available at www.g20.utoronto.ca/2010/g20finance101023.html.

48. See the IMF's press release 10/477of December 16, 2010, available at www.imf.org/external/np/sec/pr/2010/pr10477.htm.

49. More details are available at www.imf.org/external/np/sec/pr/2010/pr10418.htm.

50. These criteria are "that the member (a) has very strong economic fundamentals and institutional policy frameworks; (b) is implementing—and has a sustained track record of implementing—very strong policies, and (c) remains committed to maintaining such policies in the future. The relevant criteria for the purposes of assessing qualification for an FCL arrangement include: (i) a sustainable external position; (ii) a capital account position dominated by private flows; (iii) a track record of steady sovereign access to international capital markets at favorable terms; (iv) a reserve position that is relatively comfortable when the FCL is requested on a precautionary basis; (v) sound public finances, including a sustainable public debt position; (vi) low and stable inflation, in the context of a sound monetary and exchange rate policy framework; (vii) the absence of bank solvency problems that pose an immediate threat of a systemic banking crisis; (viii) effective financial sector supervision; and (ix) data transparency and integrity." See www.imf.org/external/np/pdr/fac/2009/032409.htm.

51. See the IMF's press release 10/321 of August 30, 2010, available at www.imf.org/external/np/sec/pr/2010/pr10321.htm.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 179

allows members to access large resources, on a precautionary basis, with streamlined ex post conditionality aimed at reducing the economic vulnerabilities identified in the qualification process.

Building on its revamped lending toolkit, the IMF is working on a proposal for a framework (Global Stabilization Mechanism; GSM) aimed at preserving confidence in the global financial system and at limiting contagion in the face of a systemic shock. Should a systemic event occur, the GSM would be set in motion and would proactively channel financial assistance to help countries cope with large-scale liquidity shortages through FCLs for multiple qualifying countries of systemic importance.[52]

At the height of the 2007–09 financial crisis, Mexico, Poland, and Colombia all requested, obtained, and later renewed, IMF assistance under the FCL terms, but apparently no Asian country has yet shown interest in the facility. On the whole, Asian countries had strong economic fundamentals and did not really need IMF support. As noted earlier, however, some Asian countries did enter into swap agreements with the U.S. Federal Reserve, while at the same time strengthening the regional financing framework through the recently announced multilateralization of the Chiang Mai Initiative. Despite wider consultations on IMF reforms, which culminated in the increasing role played by the G-20, of which emerging Asia is an important part, it is still unclear whether the IMF has broadly reshaped its relationship with emerging market economies enough to win their confidence.[53]

Given that emerging Asia is still underrepresented in the various layers of IMF decisionmaking, these countries have understandably been reluctant to submit their economic policies to the scrutiny of an institution in which they feel they have little ownership. Recent reforms do not tackle in a substantial way the current biases of the IMS. For instance, even if the ongoing quota discussions will result in a sizable ad hoc increase in quotas to dynamic economies, the 85 percent supermajority needed to approve SDR allocations will still give the largest shareholder a clear veto power. Moreover, as emerging market economies need large international liquidity buffers to counter potential sudden shifts in international capital flows, then they may have an incentive to directly approach the issuer of the main

52. See IMF (2010c), (2010d) and (2010e).
53. See Woods (2010).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 180

reserve assets, or the U.S. Federal Reserve, rather than the IMF, which in turn has to draw from the monetary authorities of hard currency issuers.[54]

Concluding Remarks

The analysis developed in this chapter has elaborated on the asymmetry between the sustained globalization of economic and financial activities driven by the integration in the world economy of emerging economies, many of which are in Asia, and the resilience shown by the IMS to adapt accordingly. The lack of an authentic multilateral forum and the greater weight placed on consultations and national-level responsibility in the conduct of each member's economic policies have prevented emerging market economies from meaningfully engaging advanced countries on the increased uncertainty they face. At a time when they have become increasingly more integrated in, and vulnerable to, the global economy, this has encouraged self-relying policies that, taken in the aggregate, defy the very notion of a global monetary system and challenge the central role of the IMF. The resilience of the IMS is exemplified in the embedded instability of a national currency, namely the dollar, taking on international currency status. As exemplified by the policy debate in emerging countries on the consequences for their economies from the expansionary stance of the U.S. Federal Reserve (referred to as "QE2"), this makes the IMS more exposed to the domestic policymaking of the world's largest economy, despite provisions in the Fund's Articles that the SDR would become the premier world reserve asset. Such issues have been raised publicly and privately by the Fund's managing director in an attempt to focus senior policymakers on the need to reform structural aspects of the IMS.[55]

The current asymmetric features of the IMS have been reinforced by the institutional framework underpinning the IMF, which has acted, in some instances, to amplify rather than reduce the built-in instability of the IMS. In fact, its regulatory role needs to be continuously underpinned by

54. IMF credit is only formally denominated in SDR since it consists mostly of foreign exchange in hard currencies. As an alternative to the current scheme, Polak (2005) has proposed SDR-funded IMF financing. His proposal is supported by Ocampo (2010), among others.

55. See, for instance, Strauss-Kahn (2009), as well as the high-level conferences that the IMF has organized with Korea, the G-20 chair, in February and July 2010. Details are available on the IMF's website: www.imf.org.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 181

decisions of its governance bodies, where a handful of countries hold a majority of votes. Even when a supermajority of votes is required, as is the case with SDR allocations, a few select countries or groups still hold potential veto power; this rule thus limits the IMF's ability to address liquidity needs among increasingly important segments of its membership. It also implies a tension in the Fund's mandate to ensure systemic stability, since it puts decisions on regulating global liquidity in the hands of the very countries issuing the hard currencies adopted as international reserve assets. As a result, until 2009, SDRs had rarely been issued, despite an increasing appetite for reserve assets shown by several emerging economies, especially in Asia.

The shift brought about in the recent crisis with the increased role of the G-20 (which includes large emerging market economies), its potential as a high-level political forum for global economic policymaking, and the apparent availability of advanced economies to strengthen the Fund's governance may reduce some of these asymmetries. A substantial realignment of the voting power within the IMF membership in the next few years will provide the means to emerging Asia to meaningfully engage with the global membership of the Fund and to promote long-range reforms of the IMS that respond to the needs of increasingly important segments of the Fund's global membership.

As long as countries with large stocks of reserves, like emerging Asian economies, perceive a gap between their relative international economic status and the position they hold within the IMF's membership, they have an incentive to break away from the IMF and to set up regional or plurilateral pooling facilities. Should they ever need substantial dollar-denominated official funding to counter the effects of a systemic crisis, they can then negotiate (precautionary) lines of credit with the U.S. monetary authorities.

With its elevation to the leaders level, the G-20 has vigorously emerged from the recent international financial crisis by carving for itself a role as the premier forum for international economic cooperation. Differently from the G-7, its inclusion of emerging market economies, especially from Asia, provides for a more legitimate forum where the heads of state and government from various regions of the world can, for the first time in history, discuss far-ranging reforms of the IMS. By providing unprecedented political capital to the IMF, they are in the unique position to give impetus to an ambitious agenda for reform that builds on the stream of initiatives already enacted, or proposed, by the IMF's managing director and

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 182

to broaden that agenda to a significant overhaul of the international monetary system.

COMMENT BY JIM O'NEILL

Domenico Lombardi lays out in great clarity and detail what has been obvious to many observers, including this one, for years. If I have any gripe with the chapter, it is with its title! It is not only through an Asian lens that the IMF and the international monetary system (IMS) are remarkably distorted. It is plainly obvious to anyone who looks at them through the lens of the modern diversified world. Indeed, this is partly what motivated me back in 2001 to first think of the "BRIC" (Brazil, Russia, India, and China) concept, which led to my publishing the paper "Building Better Global Economic BRICs" in 2001.[1]

In tables 5-1 and 5-2, Lombardi shows how the voting power of the IMF is distributed. The position of Belgium is perhaps the best example of the ludicrous state of affairs. Belgium still has a weight of 5.13 percent in IMF voting rights while the People's Republic of China (PRC) stands at 3.65 percent. How can this be right? During the decade 2000–09, the increase in the U.S. dollar value of the PRC's GDP was around $3.5 trillion, about 75 percent that of the United States. The PRC's GDP increased by more than seven times that of Japan, the country with still the second highest share of votes. Of the top ten contributors to global GDP growth, four were from the euro area, but suffice it to say that Belgium was not among them. They were France, Germany, Italy, and Spain. Collectively they contributed a similar amount to GDP expansion as the PRC. Their combined voting weights in the IMF remain at 19.3 percent, more than three times that of the PRC (see table 5-5). Ludicrous. You don't have to be born in Asia to think that, although if you were, and if you end up being an economic policymaker, you can understand why Asians might not be too enamored of IMF advice, or with the world's monetary system, in which the Fund is supposed to have a central role. The combined weight of these four European countries is actually bigger than that of the four BRIC countries put together. There is urgent need for more radical change.

1. O'Neill (2001).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 183

TABLE 5-5. Countries' IMF Voting Power in Comparison with Their Share of World GDP
Percent

Countries or country groups	*Votes in IMF*	*Share of world GDP*
United States	16.74	26
Euro 4[a]	15.29	18
PRC	3.65	9
BRICs[b]	9.60	17
European Union	32.02	30

Source: IMF; GS Global Economics, Commodities, Strategy Research.
a. Euro 4: France, Germany, Italy, and Spain.
b. BRICs: Brazil, Russia, India, and China.

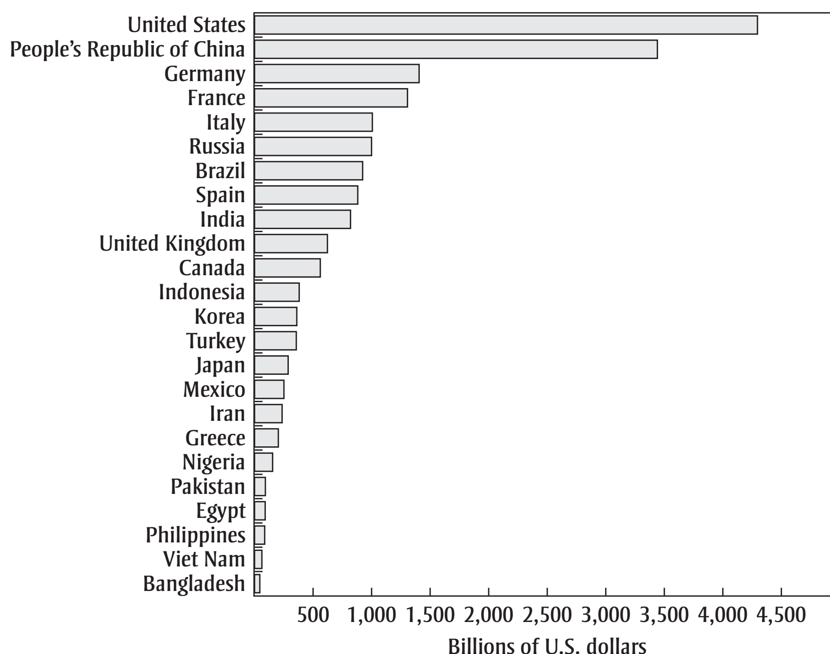
If you compare the voting rights to the current size of GDP, Europe's combined position doesn't seem too out of line if looked at in the aggregate (see figure 5-4). When you compare it to the BRICs, it does look excessive, but, ironically, not quite as inappropriate as the low share of the United States. In fact, this comparison suggests that other emerging nations perhaps have too big a share for their size, including those in Africa and Latin America, although given that they typically vote as part of multi-country groups, this is debatable. The overall oddity gets even bigger when you look at the decade ahead. According to Goldman Sachs projections for 2010–2019, no single euro area country will be among the top ten contributors to global growth, not one. France will be the closest, in eleventh place. The PRC is likely to see its dollar value of GDP increase by more than $7 trillion. This will be equivalent to double that of the United States, or close. By 2018, we expect that the BRIC countries' GDP will actually match that of the United States, with the PRC alone about two thirds. In this regard, the conclusions of the G-20 meeting in Gyeongju in October of 2010 highlight a potentially important set of governance reforms whose implementation will be helpful in addressing current gaps.

A major question will be: By 2020, will the IMF still exist if it has not changed radically? If the relative size of economies is a relevant guide, then the PRC will need to see its share of votes in the IMF at least treble. The other BRIC countries, Brazil, India, and Russia, will need to see their influence on the Fund grow significantly by more than what is implied in the decision of the IMF executive board following the Gyeongju meeting in October 2010.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 184

FIGURE 5-4. Change in Size of GDP from 2000 to 2009, by Country



Source: IMF, *World Economic Outlook,* various years; GS Global Economics, Commodities, Strategy Research.
Note: 2000 GDP was adjusted for the updated 2003 rebase of the series.

Reading Lombardi's chapter raises another issue that has dogged me for many months, in fact ever since March 2009, when People's Bank of China Governor Zhou suggested a bigger role for the SDR in the world's monetary system. His suggestions are very consistent with the flavor of Lombardi's observations, if not the specific recommendations. On the many occasions when I have thought about Zhou's proposals, I have repeatedly wondered what could give the SDR a more interesting role in life? The answer I always reach is that, if its basket were to be adjusted, its constituents should include the yuan and some of the other BRIC currencies. Indeed, in a recent Goldman Sachs paper Michael Buchanan and I suggested that this is inevitable in the next decade.[2] He and I frequently debate how this can happen without their currencies being truly convert-

2. Buchanan and O'Neill (2010).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 185

ible and free for use by others around the world. This is effectively a requirement by the IMF. However, Lombardi's chapter makes me wonder whether the PRC and the other BRIC countries might dispute this rule as we progress through the decade and they get bigger. Indeed, one wonders whether they could develop a "BRIC currency" as an offset to a freely floating dollar. There are already some tentative signs of the four countries exploring ways of using each other's currency for bilateral trade; perhaps this idea will take root unless the IMF evolves in a much more radical fashion than it is doing today.

One of the other revealing factors made evident by Lombardi is the remarkable level of foreign exchange reserves controlled by Asian countries. Again within Asia, the PRC's position stands out, although the size of reserves of many other Asian countries is often eye catching. Seen from Western eyes, and probably often those of the IMF, these levels of reserves can be translated into evidence that Asian exchange rates are deliberately kept from appreciating to support export-based models of development and growth. While there may be some partial justification for this thinking, I am not entirely convinced that this is a primary motive. We all know the considerable limitations of exchange rate models, but the model preferred by Goldman Sachs, GSDEER,[3] actually suggests that the yuan is not particularly undervalued, with the valuation mismatch having been resolved in the past five years. What does seem feasible, from Lombardi's excellent discussion of these historical developments, is that, in the 1997 Asian crisis, in response to the subsequent advice handed out by the IMF and their shock at the speed with which their economies collapsed, many Asian countries decided "never again." In this regard, and as suggested by Lombardi, it is interesting that no Asian countries have recently gone to the IMF for "help"; and other policy prescriptions, such as those adopted by Korea, are seen as more desirable. Why take advice from someone who is primarily a representative of others' interests?

So what should change? I would not want to give the false impression that the IMF and its main historical backers are asleep. In fact, just as the global credit crisis was arguably good for the PRC, by forcing it to change its model from that of an unsustainable low-value exporter to a more domestically driven economy, the IMF has benefited from the crisis. The emergence of the G-20 and the spirit in which the G-20 addressed its challenges during 2009 have both allowed, and actually

3. See O'Neill and others (2005).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 186

demanded, a change in behavior and thinking at the IMF. The decision to encourage the IMF to study the economic outlook for G-20 members in the context of their global compatibility, and to report back, is, for example, a welcome development. Similarly, the request for the IMF to opine with greater clarity and purpose on truly global matters, including misaligned exchange rates, are all steps in the right direction. The move by the United States, in August 2010, to question the number of seats at the IMF board opens up a unique opportunity for the Fund to seize the moment.

As is clearly shown by Lombardi, on a number of different fronts, the IMF has not been representative of the modern global economy and its balance. As he points out, this appears to be especially true with respect to Asia, and, within it, the PRC. As I write this, the PRC has announced that it will allow more flexibility in its foreign exchange policies, including implicitly some strengthening of the yuan. Seen in the context of a number of policy developments and the performance of the Chinese economy since late 2008, the PRC is doing a number of things that the West and the IMF should be impressed by. As the next decade progresses, if the PRC and other Asian economies, notably India, are to regard the IMF as being at the center of the world's monetary system, it will be increasingly important for the IMF to become less G-7-centric, and especially less Euro-centric.

References

Akyüz, Yilmaz. 2010. "Why the IMF and the International Monetary System Need More than Cosmetic Reform." Geneva: The South Center.

Bryant, Ralph. 2010. "Governance Shares for the International Monetary Fund: Principles, Guidelines, Current Status." Draft. Washington: Brookings.

Buchanan, Michael, and Jim O'Neill. 2010. "Global Reserve Currencies and the SDR," Global Economics Paper 196. May 26. New York: Goldman Sachs.

Cavallo, Eduardo A., and Jeffrey A. Frankel. 2008. "Does Openness to Trade Make Countries More Vulnerable to Sudden Stops, or Less? Using Gravity to Establish Causality." *Journal of International Money and Finance* 27, no. 8 (December): 1430–52.

Derviş, Kemal. 2009. "Precautionary Resources and Long-Term Development Finance: The Financial Role of the Bretton Woods Institutions after the Crisis." Richard H. Sabot Lecture Series. Washington: Center for Global Development.

Eichengreen, Barry. 2006. *Global Imbalances and the Lessons of Bretton Woods.* MIT Press.

Eichengreen, Barry, Ricardo Hausmann, and Ugo Panizza. 2007. "Currency Mismatches, Debt Intolerance, and the Original Sin: Why They Are Not the Same and

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 187

Why It Matters." In *Capital Controls and Capital Flows in Emerging Economies: Policies, Practices and Consequences,* edited by Sebastian Edwards, pp. 121–70. Cambridge, Mass.: National Bureau of Economic Research.

Independent Evaluation Office (IEO). 2003. "The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil." An Evaluation by the Independent Evaluation Office (IEO) of the IMF. Washington: International Monetary Fund.

———. 2006. "An Evaluation of the IMF's Multilateral Surveillance." Evaluation by the Independent Evaluation Office (IEO) of the IMF. Washington: International Monetary Fund.

International Monetary Fund (IMF). 2009. "The G-20 Mutual Assessment Process and the Role of the Fund." Washington.

———. 2010a. "The G-20 Mutual Assessment Process—Alternative Policy Scenarios." Washington.

———. 2010b. *World Economic Outlook. October 2010.* Washington.

———. 2010c. "The Fund's Mandate: The Future Financing Role: Revised Reform Proposals." March 25. Washington.

———. 2010d. "The Fund's Mandate: The Future Financing Role: Revised Reform Proposals." June 29. Washington.

———. 2010e. "The Fund's Mandate: The Future Financing Role: Revised Reform Proposals." August 25. Washington.

———. 2011. "Enhancing International Monetary Stability—A Role for the SDR?" January 7. Washington.

Ito, Takatoshi. 2007. "Asian Currency Crisis and the International Monetary Fund, 10 Years Later: Overview." *Asian Economic Policy Review* 2: 16–49.

Kaminsky, Graciela L., Carmen Reinhart, and Carlos A. Vegh. 2003. "The Unholy Trinity of Financial Contagion." *Journal of Economic Perspectives* 17, no. 4 (Fall): 51–74.

Kawai, Masahiro. 2007. "East Asia Economic Regionalism: Update." In *The International Monetary System, the IMF, and the G-20: A Great Transformation in the Making?* edited by Richard Samans, Marc Uzan, and Augusto Lopez-Carlos. Basingstoke, U.K.: Palgrave Macmillan.

Kawai, Masahiro, and Pradumna B. Rana. 2009. "The Asian Financial Crisis Revisited: Lessons, Responses, and New Challenges." In *Lessons from the Asian Financial Crisis,* edited by Richard Carney, pp. 155–97. New York: Routledge.

Keynes, John Maynard. 1930. *Treatise on Money.* New York: Harcourt, Brace.

———. 1941. "Keynes to Montagu Norman, Governor of the Bank of England, 19 December." In *Collected Writings,* vol. 25, pp. 98–99.

Kose, M. Ayhan, Eswar Prasad, and Marco Terrones. 2003. "Financial Integration and Macroeconomic Volatility." IMF Working Paper 03/50. Washington: International Monetary Fund.

Kuroda, Haruhiko, and Masahiro Kawai. 2002. "Strengthening Regional Financial Cooperation in Asia." *Pacific Economic Papers* 332: 1–35.

Lombardi, Domenico. 2008. "Bringing Balance to the IMF Reform Debate." *World Economics* 9, no. 4: 13–26.

———. 2009. "Report to the IMF Managing Director on the Civil Society (Fourth Pillar) Consultations with the IMF on Reform of IMF Governance." Washington: International Monetary Fund.

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 188

Lombardi, Domenico, and Ngaire Woods. 2007. "The Political Economy of IMF Surveillance." CIGI Working Paper 17. Waterloo, Canada: Centre for International Governance Innovation (February).

———. 2008. "The Politics of Influence: An Analysis of IMF Surveillance." *Review of International Political Economy* 15, no. 5: 711–39.

Mateos y Lago, Isabelle, Rupa Duttagupta, and Rishi Goyal. 2009. "The Debate on the International Monetary System." IMF Staff Position Note. Washington: International Monetary Fund (November).

Mirakhor, Abbas, and Iqbal Zaidi. 2009. "Rethinking the Governance of the International Monetary Fund." In *Finance, Development, and the IMF,* edited by James Boughton and Domenico Lombardi. Oxford University Press.

Mo, Jongryn, and Chiwook Kim. 2009. "Power and Responsibility: Can East Asian Leadership Rise to the Challenge?" Working Paper 09-01. Seoul: Hills Governance Center at Yonsei.

Obstfeld, Maurice, Jay C. Shambaugh, and Alan M. Taylor. 2010. "Financial Stability, the Trilemma, and International Reserves." *American Economic Journal: Macroeconomics* 2, no. 2: 57–94.

Ocampo, José Antonio. 2010. "Reforming the Global Reserve System." In *Time for a Visible Hand: Lessons from the 2008 World Financial Crisis,* edited by Stephany Griffith-Jones, José Antonio Ocampo, and Joseph E. Stiglitz. Oxford University Press.

O'Neill, Jim. 2001. "Building Better Global Economic BRICs." Global Economics Paper 66. November 30. New York: Goldman Sachs.

O'Neill, Jim, Alberto Ades, Hina Choksy, Jens Nordvig, and Thomas Stolper. 2005. "Merging GSDEER and GSDEEMER: A Global Approach to Equilibrium Exchange Rate Modelling." Global Economics Paper 124. New York: Goldman Sachs.

Perry, Guillermo. 2009. *Beyond Lending—How Multilateral Banks Can Help Developing Countries Manage Volatility*. Washington: Center for Global Development.

Polak, Jacques J. 2005. *Economic Theory and Financial Policy: Selected Essays of Jacques J. Polak 1994–2004,* edited by James Boughton. Armonk, N.Y.: M. E. Sharpe.

Prasad, Eswar, Ayhan Kose, Kenneth Rogoff, and Shang-Jin Wei. 2009. "Financial Globalization: A Reappraisal." *IMF Staff Papers* 56: 8–62.

Radelet, Steven, and Jeffrey Sachs. 1998. "The East Asian Financial Crises: Diagnosis, Remedies, Prospects." *Brookings Papers on Economic Activity* 1: 1–90.

Sachs, Jeffrey. 1998. "The IMF and the Asian Flu." *American Prospect* 37 (March–April): 16–21.

Stiglitz, Joseph E. 1998. "The Asian Crisis and the Future of the International Architecture." *World Economic Affairs* (September).

Strauss-Kahn, Dominique. 2009. "Beyond the Crisis: Sustainable Growth and a Stable International Monetary System." Sixth Annual Bundesbank Lecture, Berlin, September 4.

Triffin, Robert. 1961. *Gold and the Dollar*. Yale University Press.

———. 1968. *Our International Monetary System: Yesterday, Today and Tomorrow*. New York: Random House.

Truman, Edwin. 2010. "The IMF and Regulatory Challenges." *International Spectator* 45, no. 1 (March).

1ST REVISE

12422-05_Ch05-rev.qxd 3/8/11 2:54 PM Page 189

United Nations. 2009. "Recommendations by the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System." New York: United Nations.

Woods, Ngaire. 2009. "Governance Matters: The IMF and Sub-Saharan Africa." In *Finance, Development, and the IMF,* edited by James Boughton and Domenico Lombardi. Oxford University Press.

———. 2010. "Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?" *Global Policy* 1, no. 1: 51–63.

Woods, Ngaire, and Domenico Lombardi. 2006. "Uneven Patterns of Governance: How Developing Countries Are Represented in the IMF." *Review of International Political Economy* 13, no. 3: 480–515.

Xafa, Miranda. 2010. "Role of the IMF in the Global Financial Crisis." *Cato Journal* 30, no. 3 (Fall): 475–89.

Zhou, Xiaochuan. 2009. "Reform the International Monetary System." Speech presented at the People's Bank of China, March (www.pbc.gov.cn/english/detail.asp?col=6500&id=178).

1ST REVISE