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German Development Institute

Europe, the IMF, and the Developing Countries

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The Current Column

of 26 September 2011

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Bonn, 26 September 2011. From the very beginning, the developing countries have regarded the International Monetary Fund (IMF) with suspicion and only rarely as an impartial institution: voting rights in the IMF were distributed too unevenly in an economic hegemony of power in which the United States and Europe were the dominant actors.

This appeared to change in recent years as weights in the IMF gradually shifted towards the emerging economies, especially in China's favour. With the appointment of the French Finance Minister Christine Lagarde to the top position at the IMF, however, it again became clear that Europe and the USA, in spite of announcements to the contrary within the G20 framework, are not yet willing to vacate their positions of leadership at the IMF and the World Bank. The emerging economies, as also became clear in the process, were not in a position to agree on a joint candidate.

The IMF's role in (Southern) Europe's debt crisis is now bringing it under fire, above all from Latin America, whereas the emerging Asian economies continue to maintain a polite reserve. In the past, Latin Americans and Asians have suffered too long under the dictates of the Fund for them to hold back now, when Europe needs the resources of the IMF more urgently than ever. Anyone who still remembers how the IMF under Horst Köhler turned off the funding faucet for Argentina in 2001, or how it brought about bank closures in Indonesia under Michel Camdessus in 1998 during the Asia crisis, can only regard the Fund's financing and requirement policies in Europe with suspicion.

The emerging economies criticize first of all the fact that the Fund is putting too large a portion of its resources – which tripled during the course of the financial crisis – at the disposal of Greece, Ireland, and Portugal. In total, this amounts to two thirds of the most recent IMF pledges, even without taking the upcoming second round of financing for Greece into consideration. In contrast, the poorest countries currently receive less than ten per cent of the IMF's funds.

Secondly, criticism is levelled at the IMF for behaving too leniently toward Europe. In the case of Greece, it is part of a "Troika" consisting of the European Commission, the European Central Bank, and the IMF, in which the weights are quite clearly distributed in favour of European institutions, even though the Europeans insist that they would not make any decisions against the objections of the IMF.

Christine Lagarde knows, of course, that she is currently between Scylla and Charybdis, and has therefore deliberately tried to prod the European Finance Ministers by calling for more intensive capitalization of the European banks and a slower reduction of budgetary deficits in Germany and other solvent EU countries. Although this was intended to be part of a coherent European crisis policy, it corresponded more in actual fact to the U.S. position. For that reason a further balancing act in favour of the position of the emerging economies currently looms.

What form might that take? From the viewpoint of the emerging economies, the IMF should make no further financial resources available for Europe, since the European strategy of "seeing it through", that is, of supporting countries which are over their heads in debt by providing further loans, is unpromising. The IMF should stay out of the European dilemma – the refusal of private lenders on the one hand to lend to the Southern European countries and the hesitation of the Northern European countries to replace these loans out of public funds. The IMF's conditionality is of little interest in Europe anyway. The preceptors of Greek economic policy have their seats in Brussels, Frankfurt and Berlin, not in Washington.

The legitimacy of the IMF from the viewpoint of the developing countries today is therefore once again under scrutiny. Under Dominique Strauss-Kahn, the Fund again acquired a key role in the world economy during the financial crisis – with the approval of the emerging economies – but has failed to live up adequately to this responsibility following the change of leadership. The altercation regarding competitive currency devaluations ("currency wars") are growing increasingly sharp. Brazil's President, Dilma Rousseff, whose country suffers under the corresponding appreciation pressure on its currency and speculative inflows of capital, voiced stern criticism a few days ago in the *Financial Times* regarding the lack of global economic coordination; she reminded Europe above all of its responsibility to care for the collective public good of global economic stability and growth.

From the Asian perspective, the role of the IMF in Europe is also viewed critically and without all too much direct involvement in the matter. China has somewhat more influence in the IMF – due to a stronger voice in terms of voting rights and its Deputy Managing Director position. Nevertheless, it does not attempt to determine the direction of the Fund but instead proffers bilateral financing to European countries. Parallel to this, without any fanfare, work continues on laying the groundwork for an Asian Monetary Fund. Under the direction of a former Chinese Executive Director of the IMF, an institution was recently founded in Singapore which in the future is to take over macro-economic coordination and supervision within the context of an (East) Asian monetary union (ASEAN+3 Macroeconomic Research Office – AMRO). In other respects, the Asians are attempting to establish a hedge against global economic risks through massive currency reserves; in doing so, they remain increasingly in the dark about which currency to invest their surpluses in.

The signs therefore point more in the direction of global economic fragmentation than towards coordinated action. In their own long-term interest, the Europeans should not hinder the IMF from playing its role impartially on the global economic stage. However, one may rightly expect from the Fund that it present its own suggestions for a solution to the European crisis rather than simply retiring to the role of a silent co-financer, thus confirming the voices of its critics from the emerging economies.

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