Bloc Voting – A New Voting System for the International Monetary Fund

By

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Submitted to the graduate degree program in Law Faculty of the University of Kansas in partial fulfillment of the requirements for the degree of Doctor of Juridical Science.

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Date approved: February 4, 2014
ABSTRACT

The international community needs the IMF to fulfill its purposes in monitoring the international financial system. However, the IMF does not satisfy the international community’s expectations, because the IMF lacks good governance. After identifying and addressing three key questions regarding IMF governance, I propose that the IMF adopt bloc voting as a new decision-making system, which would require the acceptance of an amendment to the Articles of Agreement. The bloc voting system would create two sets of voting blocs – “econ blocs” and “regional blocs”, and the IMF member countries would have to vote through voting blocs to make decisions. By accepting the bloc voting amendment, the IMF would satisfy the principles of participation, accountability, and effectiveness, thereby restoring good governance and fulfilling its purposes.

Keywords: IMF, Articles of Agreement, bloc voting
ACKNOWLEDGEMENTS

I would like to express my deepest gratitude to my faculty advisor, Professor Head, for his guidance, patience, motivation, inspiration and most importantly, his continuous support for my S.J.D. studies at the University of Kansas School of Law. His knowledge of international law has enlightened me in the writing of this dissertation. Without his mentorship, it would not have been possible for me to complete this ambitious project.

I also would like to thank Professor Levy, Professor Lucas and Professor Birch for serving on my committee. Many thanks to Professor Bhala, Professor Harper-Ho, and Professor Staihr. Their knowledge and expertise made my studies at KU a priceless experience.

A special thank to Brittany Brannon and the KU Writing Center. I cannot imagine finishing my dissertation without her insightful advice, enthusiastic language tutoring and numerous hours of careful editorial assistance.

I wish to acknowledge gratitude to my host family, Walt Kihm and Ann Kihm. Their selfless support and constant encouragement have accompanied me every step of the way. I am also thankful to other friends that I have had the good fortune to meet in Lawrence.

Last but not least, I would like to thank my parents, Minsheng Jiang and Xiaoying Hong, for their unconditional love, care and support.
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INTRODUCTION

After World War II, the International Monetary Fund (IMF) was established to restore and maintain stability in the world financial system. However, many observers – scholars, policy-makers, and others – have criticized the IMF by asserting that the institution has neither prevented nor solved the various global financial crises that have arisen since the 1970s.¹ Even a cursory survey of those criticisms reveals that the IMF, at the very least, does not enjoy the success that the international community has expected it to achieve. This dissertation will examine some central reasons for this situation – that is, what has prevented the IMF from successfully carrying out its functions as expected – and on that basis, will propose a possible alteration to the IMF in order to help address this situation.

My approach in undertaking this ambitious project is to identify and address three key questions:

1. After 60 years, does the international community still need an international financial institution like the IMF in order to maintain stability of the international monetary system?² In other words, **is the IMF still needed?**


² An international financial institution is one kind of public international organization providing financial services, particularly to the states that create it and compose its membership. A more detailed explanation will be offered in Chapter Three.
2. If so, why might it be that the IMF, as we observe it, does not carry out its assigned functions as expected or to enjoy the success that the international community asks of it? In short, why is the IMF not working as expected?

3. In what way should the IMF make changes to address the issue of its unsatisfactory performance? In other words, in what ways should the IMF reform?

This dissertation is aimed at examining and addressing these three key questions, and at exploring in particular a cluster of issues relating to the governance of the IMF. This dissertation proceeds as follows. Chapter One explains the background circumstances and reasons for the establishment of the IMF, as well as the governance structure of the IMF as originally formulated and as revised slightly over time. Chapter One also briefly introduces the IMF’s reforms in the 2000s that were designed to bring some improvements to the governing structure of the institution.

Chapter Two provides a “literature review” – that is, a brief summary of previous scholarly writings on the main topics at issue in this dissertation, along with an analysis of their methods and conclusions. Special attention is given to three authors whose work aligns directly with the three key questions identified above, and whose reputation and expertise warrant respect. The particular works examined in Chapter Two are: Philipp Maier’s Do We Need the IMF to Resolve a Crisis? Lessons from Past Episodes of Debt Restructuring, a 2007 Bank of Canada Working Paper; Ngaire Woods’ Good Governance in International Organizations, a 1999 paper published in the journal Global Governance; and Daniel Bradlow’s Stuffing New Wine into Old Bottles: The Troubling Case of the IMF, a 2001 paper published in the Journal of International Banking Regulation.
Perhaps a brief preview of these three crucial works would be in order. Maier’s scholarship discusses the first key question and contends that we do not need the IMF anymore. Woods’ writing proposes principles and standards of international institutions’ good governance, thereby providing a model by which this dissertation is able to address the second key question and conclude that the IMF does not have a good governance structure. Bradlow’s work focuses mainly on the third key question, by listing five distortions of the IMF and pointing out a list of reforms that the IMF should undertake.

In addition to these three authorities, of course, numerous other observers have made assertions about, offered critiques of, and proposed changes to the IMF’s governance structure. Chapter Two also discusses these contributions to the literature, although in somewhat less detail than is devoted to the three works mentioned above. As a consequence of this two-level approach, Chapter Two offers a broad foundation for understanding how the IMF and its work have been evaluated by a wide range of observers.

Having introduced the key issues and surveyed the existing literature on them, this dissertation then turns in Chapter Three to a close examination of the first and second key questions. To answer the first key question – is the IMF still needed – I will first review the origins of international organizations and particularly international financial institutions. I will then focus on the purposes of the IMF, based on Article I of the IMF Articles of Agreement. My assessment of whether we still need the IMF will be based on whether or not the purposes stated in Article I are necessary (that is, whether they still need to be fulfilled) in the world today. To answer the second key question – why is the IMF not working as expected – I will concentrate my attention on the governance of the IMF, because the governance of the IMF determines the economic contributions its members make to it and its role within the international financial architecture. Indeed, the
policies and the decisions of the IMF necessarily emerge from its governance structure – the decision-making system and the power relations within the institution. If the institution’s governance structure is unwieldy or unfair, and therefore does not work well, the IMF will likely adopt policies that ineffectively serve its purposes. Based on Woods’ good governance theory, I conclude that the IMF fails to pass the participation test and the accountability test, and thus does not have good governance. It is important to acknowledge, of course, that the IMF has started to respond to the criticisms leveled at it concerning governance issues and has conducted significant reforms in the 2000s. I close Chapter Three by enumerating and briefly explaining those reforms and by examining why the sorts of reforms already accepted and undertaken by the IMF – for instance, a simple quota reallocation – are incomplete and will not solve the institution’s good governance problem.

Chapter Four answers the last of the three key questions on which my study has concentrated – in what ways should the IMF reform. Based on the discussion in previous chapters, I contend in Chapter Four that the IMF’s decision-making structure needs to be reformed in some rather fundamental ways. Indeed, the IMF needs a carefully constructed decision-making system which will ensure that the IMF can and does meet the participation, accountability, and efficiency principles of good governance. In support of this proposition, I first list and compare several major decision-making systems that are pertinent, or potentially pertinent, to the IMF. These include the rule of unanimity, the rule of majority, the weighted voting system, the consensus approach, and the bloc voting system. Based on three relevant factors, I conclude that a special form of a bloc voting system would work best for the IMF. Indeed, the cluster of topics could be the subject of a great deal more research than I have been able to carry out in a limited time. Some further detailed work on the issues might include research into the literature on public choice theory and in political science more generally to
address the “political economy” of legislative-type decision-making processes. However, conducting research on the literature on political science such as the public choice theory is beyond the scope of this dissertation. This dissertation could only focus on some of the basic factors and reasoning from the legal perspective and make a bold proposal that the IMF adopt bloc voting as a new decision-making system, which would require the acceptance of an amendment to the Articles of Agreement. With certain variations, such a bloc voting system has been adopted by some international organizations, but not yet by any major international financial institution. A key aim of Chapter Four is to explore why and how this new element might be introduced into the IMF. A proposed amendment to the IMF’s Articles of Agreement, along with three hypothetical cases, explains how the IMF would operate under the bloc voting system.

Chapter Five offers the overall conclusions of my research into these important issues. It gives a quick retrospective examination of the three key questions at issue in the dissertation, and considers some of the “next step” issues, such as how the circumstances of the international community might afford a reasonable opportunity in the coming years to actually adopt such a reform in the IMF governance. In order to restore good governance, the IMF should adopt the bloc voting approach as its decision-making system. Once the IMF’s good governance is restored, the IMF will be better able to effectively fulfill its purpose, and therefore help stabilize the world monetary system.
CHAPTER ONE    A STATEMENT OF KEY ISSUES: THE IMF’S GOVERNANCE STRUCTURE IN PRINCIPLE AND IN PRACTICE

In order to understand and analyze the most important criticisms leveled at the IMF – especially those relating to its structure and even its very existence – this chapter starts by identifying and elaborating on three specific questions, and then places those questions in an operational context by exploring the specific elements of the IMF’s power and control. These elements center on the original aims of the designers of the institution, with special emphasis on the techniques they used to divide authority among the various entities that would control the IMF’s decision-making processes. The fact that those techniques, such as the weighted voting system which operates under a system of “quotas”, are now under scrutiny shows most clearly the pressure that is mounting against the IMF to bring some degree of reform to its decision-making system. This chapter closes with an examination of that reform, as it has occurred thus far. By providing an introduction to these key issues, this chapter sets the stage for a review of the literature most relevant to the future of the IMF.

I.  Three Key Questions about the IMF

As noted in the Introduction, I have identified three questions about the IMF having to do with its continuing usefulness, its ability (or inability) to
function properly in its current form, and its future. I will elaborate on those three questions here.

A. Question One: Is the IMF Still Needed?

The IMF has been severely criticized for decades. One of the most extreme criticisms is an existential one – that the IMF is not needed any more and therefore should be abolished. Some critics have cited the fact that some of the IMF’s member countries think the institution does them no good, as evidence that the IMF is no longer needed. One manifestation of this sentiment can be seen in the fact that some countries have, in recent years, refused to accept the IMF’s conditional loans during a time of financial crisis.\(^3\) When the IMF was created, its basic function was to stabilize the world’s system of currency exchange rates. After the collapse of the Bretton Woods system of fixed exchange rates, the IMF focused on its lending function and became a third party between debtor countries and creditor countries in responding to balance of payment difficulties.\(^4\) However, because many countries are not satisfied with the conditions attached to IMF loans, and are able to obtain loans from other sources, the need for the IMF is once again questioned. Moreover, the dissatisfaction with the IMF comes not only from potential (and actual) borrowing countries, but from economically advanced


countries as well. Many industrialized countries believe that “as debt restructurings have limited impacts on financial stability nowadays, the IMF is no longer needed to limit negative consequences on advanced countries’ economies.”\textsuperscript{5} In short, many countries do not regard the IMF as necessary in the international financial system.

The IMF, on the other hand, has tried to persuade official authorities and others that it still provides valuable services – for instance, that it plays a critical role in preventing the shortage of foreign exchange in developing countries. On the IMF’s official website, an imaginary scenario is portrayed in order to illustrate some serious economic problems that could afflict a country if the IMF did not exist.\textsuperscript{6} As explained there, “[t]he scenario involves a wireless phone dealer in the mythical land of Yak, which is suffering from a shortage of foreign exchange because of the government’s mismanagement of the country’s monetary system. In the scenario, there is no IMF to turn to in order to resolve such a currency crisis.” However, this scenario only underscores the importance of a “third party” to facilitate negotiations between debtor countries and creditor countries. It might easily be conceded that the demand for such a third party still exists but that it may not be the IMF that should satisfy that demand.\textsuperscript{7}

In short, the question over the necessity of the IMF is controversial. But to discuss the necessity of the IMF, it is essential to look at the original grounds on which the IMF was established. If the original grounds – the purpose of the IMF – do not still exist, then the IMF is no longer needed and should be abandoned. If the grounds do still exist, then the IMF, or some other international financial


\textsuperscript{7} For an analysis along these lines, see Maier, \textit{supra} note 5, at 10.
institution, is needed in the world today. In Chapter Three, where I explore this issue, I will conclude that the IMF is still needed because the purposes stated in the IMF Articles of Agreement still exist. Furthermore, I will discuss why the best solution is to reform the IMF rather than to rely on another international financial institution or to create a new one.

B. Question Two: Why Is the IMF Not Working as Expected?

The current financial crisis – that is, the one that gripped the world beginning around 2008 and still causes great difficulties for many economies – has once again raised doubts about the IMF’s capacity to fulfill its mission. Indeed, the international community – a group of governments and peoples in the world – expects the IMF to restore its central role as the principal multilateral institution in responding to the global financial crisis.\(^8\) The IMF could and should, according to its purposes imagined in 1944, take leadership of its member countries in combating the worldwide economic and financial crisis. However, many believe that the IMF does not effectively fulfill its intended role to stabilize the international monetary system.\(^9\) Many scholars have attributed this problem to the IMF’s governance structure and have called on the institution’s membership to restructure the architecture of the IMF. Some have proposed to form what one set of observers refers to as “a more legitimate, accountable, and effective IMF.”\(^10\) The implication of such criticisms and suggestions, of course, is that the IMF is not able, under its current structure, to fulfill whatever functions the international community wishes to assign to it.

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\(^9\) Id.

Perhaps it is inevitable that critics would be able, without much trouble, to identify reasons why the IMF cannot function properly in its current form. After all, consider the passage of time: The IMF was created well over half a century ago. Over the past decades, both the political and economic situations of the world and its nations have rapidly changed. The Berlin Wall fell. China opened its gates, and its GDP grew at double digit rates in the 1990s. Yet the main structural features of the IMF, as well as those of other major international financial organizations, have remained largely the same. In fact, as will be explained further below, the IMF can be seen as having changed the least among the major global economic organizations.

Many scholars have concentrated special attention – often negative – on the governance structure of the IMF. Indeed, the governance structure is absolutely fundamental to the IMF, inasmuch as it is through the operation of the governance structure that the IMF’s economic contributions and its role within the international financial architecture are determined. If the governance regime does not work well, the IMF will likely adopt policies that ineffectively serve its purpose as stated in the Articles of Agreement – or at the very least will adopt policies in a manner that those participants who are displeased with the governance structure will reject, thereby sabotaging any hope for success in IMF operations. Principles of good governance should be defined, and the IMF should be tested based on such principles. If the IMF were to fail the test, then the IMF can be proved to not have good governance.

Most scholars deliberating over these issues focus on the need to put in place some adjustment of the voting powers\textsuperscript{11} that lie at the heart of the institution’s regime of control – on grounds that the voting related aspects of the current governance structure stand in the way of a successful fulfillment of the

\textsuperscript{11} \textit{Id.} at 4.
IMF’s mission. Specifically, some observers suggest transferring some volume of quota allocations, which will be explained fully below, to emerging market countries, while others suggest a reallocation (or further reallocation) of the so-called “basic votes” (also explained below) for the sake of low-income countries.12

Indeed, it appears that the IMF itself also has realized that there is validity to the underlying message of these suggestions – that its existing governance structure is a key impediment that prevents the institution from working properly – and has begun to take steps toward reform. Starting from the year 2008, the IMF initiated perhaps the most wide-ranging governance reforms in its history.13 Significant weight of voting power has, as a result of that reform program, been shifted to emerging markets and developing countries, and the arrangements for each country’s “basic vote” have been revised in a way that establishes a fixed rate designed to retain some significant voting power for the smallest member countries.14 The IMF has claimed that this reform will lead to a “more legitimate and democratic” Fund.15

However, against the entire backdrop of the IMF’s governance structure, the IMF’s reforms in the 2000s might be seen as relatively modest in scope and as falling short of being adequate to solve what many would consider the core of the IMF’s good governance problem – that the IMF does not meet the participation, accountability, and effectiveness principles of good governance. Because the problem is caused by the IMF’s structures, therefore, the IMF needs a carefully

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12 Id.
13 See, for instance, The IMF, IMF Board Approves Far-Reaching Governance Reforms, IMF SURVEY (2010). There were two reforms in the year 2008 and 2010 respectively, which will be discussed later in Chapter One.
14 Id.
15 Id.
constructed voting system rather than a simple quota transfer. I will further elaborate on these points in the discussion in Chapter Three.

C. Question Three: In What Ways Should the IMF Reform?

This third question builds on the answers given to the first and second questions. Assuming that there is still a role for the IMF in today’s world, and assuming that the IMF’s governance structure constitutes an impediment to the institution’s effective playing of that role, then naturally one would raise a question that is about how to reform the IMF.

A range of solutions have been offered, and we – that is, the international community and those who seek to guide it toward improvements – need to know what the best solution is or would be. Is the IMF on the right track with the cluster of governance reforms that the IMF conducted in the 2000s? Should it continue to shift some volumes of quota from developed countries to the developing countries? Should the United States retain its effective veto power, which makes it able to block any major decisions in the Fund? Should the borrower (debtor) countries or lending (creditor) countries have more influence in the IMF? I will attempt to answer these and other related questions in Chapter Four.

II. The Governance Structure of the IMF

Before attempting a careful study of the three key questions posed above, we must establish a solid foundation for understanding the IMF and its current governance structure. The following pages are intended to build that foundation by examining some especially relevant aspects of the IMF’s creation in 1944: these include in particular the adoption of an unusual system for quantifying each
member country’s level of participation in the institution – the “quota system” – and the ways in which that system bears on the allocation and importance of votes as a practical matter at the three levels of IMF governance, namely the Board of Governors, the Board of Executive Directors, and the management team.

A. The Establishment of the IMF

After World War II, the world was facing three serious economic problems: the devastation of Europe (as caused by the unprecedented level of military attacks and destruction during the hostilities), the collapse of the global economy (particularly the instability caused by wild currency exchange rate fluctuations),\(^\text{16}\) and trade protectionism (following the extravagant hikes in tariff and non-tariff barriers imposed in the 1930s).\(^\text{17}\) The United Nations Monetary and Financial Conference, also known as the Bretton Woods Conference, was held in Bretton Woods, New Hampshire in July 1944 to address these economic challenges.\(^\text{18}\) During the conference, agreements were signed to establish the International Bank for Reconstruction and Development (IBRD) and the IMF. There were 35 original member countries of the IMF, including: Belgium,


\(^{18}\) According to Peter Coffey, a Professor Emeritus of International Management at the University of St. Thomas and the U.S. West-endowed Chair in International Management, there were three basic aims at Bretton Woods: “1. to create some form of credit organization which would give temporary assistance to countries facing balance-of-payment problems; 2. to create some form of international capital agency thus averting the former erratic and destructive international capital movements, and, 3. to set up an international trade organization which would devise and apply international trading rules.” Of course, the outcome at Bretton Woods did not exactly fulfill the expectations of these three aims. Peter Coffey & Robert Riley, Reform Of The International Institutions The IMF, World Bank and The WTO 3 (2006).
Bolivia, Brazil, Canada, Chile, China\textsuperscript{19}, Colombia, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, Ecuador, Egypt, Ethiopia, France, Greece, Guatemala, Honduras, Iceland, India, Iran, Luxembourg, Mexico, Netherlands, Norway, Paraguay, Peru, Philippine Commonwealth, Poland, Union of South Africa, United Kingdom, United States of America, Uruguay, and Yugoslavia.\textsuperscript{20} Two years later, in 1947, another agreement, the General Agreement on Tariffs and Trade (GATT), was signed. By signing these agreements, the international community started to address all three serious economic problems.

These three organizations – or, more precisely, two organizations and a treaty regime\textsuperscript{21} – were created for separate purposes. The IBRD’s mission was to finance the reconstruction of European countries devastated by the war, thereby addressing the first of the three serious economic problems identified above. The GATT was designed for trade liberalization, thereby addressing the third of the three serious economic problems identified above. The IMF was set up to oversee the international monetary system and to maintain the stability of exchange rates.\textsuperscript{22} One of the outcomes of the establishment of the IMF is to help address the second of the three serious economic problems. The Articles of Agreement of the IMF entered into force on December 27, 1945 and the IMF was officially

\textsuperscript{19} Here, China refers to the Republic of China (Taiwan). The membership of the Republic of China in the IMF ended in 1980. Its membership was replaced by that of the People’s Republic of China.

\textsuperscript{20} JAMES RAYMOND VREELAND, THE INTERNATIONAL MONETARY FUND: POLITICS OF CONDITIONAL LENDING 6 (2007). The member countries list was reported in the \textit{Summary Proceedings of the First Annual meeting of the Board of Governors}, 1946.

\textsuperscript{21} It is significant for some purposes to recognize that the GATT was never a true international organization with legal personality of the sort that the two Bretton Woods institutions – the IBRD and the IMF – were endowed with from their creation. It was not until the World Trade Organization (WTO) came into existence in 1995 that the issues of multilateral trade relations were “housed” in an international organization with such legal personality.

\textsuperscript{22} For a description of the first part of this explanation, see International Monetary Fund, \textit{History}, available at \url{http://www.imf.org/external/about/history.htm}
established in May 1946. As of 2013, the IMF has a near-global membership of 188 countries.

The IMF’s operations are to be governed by the Articles of Agreement. Article I states the purposes of the IMF:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to

23 The Articles of Agreement of the IMF – also referred to as the IMF Charter – has been amended six times, in the 1960s, the 1970s, the 1990s, and the 2010s respectively. The first amendment, which entered into force on July 28, 1969, introduced the special drawing right (SDR). The SDR will be explained in the following section. See Amendment of Articles of Agreement of the International Monetary Fund, approved May 31, 1968, 22 U.S.T. 2775, 726 U.N.T.S. 266. The second amendment entered into force on April 1, 1978. See Second Amendment of Articles of Agreement of the International Monetary Fund, 29 U.S.T. 2203, T.I.A.S. No. 8937, 15 I.L.M. 546. The third amendment entered into force on November 11, 1992, providing that a member country could be subjected to a sanction (suspension of voting rights) if it fails to pay its arrears to the IMF. See Third Amendment of Articles of Agreement of the International Monetary Fund, approved June 28, 1990, 31 I.L.M. 1307, 1309-10. The fourth amendment was approved on September 23, 1997, and entered into force on August 10, 2009. The fifth amendment was approved on May 5, 2008, entered into force on February 18, 2011. The sixth amendment was approved on April 28, 2008, and entered into force on May 5, 2008. The fourth amendment concerned matters of SDR allocations. The fifth and sixth amendments concerned matters of governance structure reforms, which will be fully discussed in the later chapter. There is currently a proposed amendment of the Articles of Agreement on Reform of the Executive Board and Consents to 2010 Quota Increase. As of April 29, 2013, 136 members having 71.31 percent of total voting power had accepted the amendment. Once it is accepted by three-fifths of the Fund’s 188 members (or 113 members) having 85 percent of the Fund’s total voting power, it would be the seventh amendment. All citations hereinafter to the IMF Articles of Agreement reflect the text following the sixth amendment. See the IMF, the Articles of Agreement of the International Monetary Fund, available at http://www.imf.org/external/pubs/ft/aa/. See also JOHN W. HEAD, THE FUTURE OF THE GLOBAL ECONOMIC ORGANIZATIONS: AN EVALUATION OF CRITICISMS LEVELED AT THE IMF, THE MULTILATERAL DEVELOPMENT BANKS, AND THE WTO 22 n. 12 (2005).

24 See the IMF, the Articles of Agreement of the International Monetary Fund, available at http://www.imf.org/external/pubs/ft/aa/.

25 Id. Introductory Article “The International Monetary Fund is established and shall operate in accordance with the provisions of this Agreement as originally adopted and subsequently amended.” See also Guy Bruccoleri, A Need to Refocus the Mandate of the International Monetary Fund and the World Bank, 17 WINDSOR REV. LEGAL & SOC. ISSUES 53 (2004).
the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.\(^{26}\)

Based on the purposes stated in Article I, the focus of the IMF has evolved constantly in response to the world economic situation. Some highlights of this evolution are given in the account that follows.

During its first three decades (1944-71), the IMF mainly focused on managing the par value system of fixed exchange rates. Under the par value system, the value of a currency is fixed (i.e., made unchangeable) in relation to the value of either gold or the U.S. dollar.\(^{27}\) In other words, the dollar is a standard of fixed gold content and “a par value expressed in terms of that dollar is fixed in terms of gold as well, although indirectly.”\(^{28}\) Under the par value system, any country that “wished to maintain the same relationship in terms of the units of its currency to the current U.S. dollar had to change the par value of its currency as a

\(^{26}\) IMF Articles of Agreement, Article I.


\(^{28}\) *Id.*
result of the change in the par value of the dollar.”\textsuperscript{29} This par value system helped stabilize the currency exchange rate in the world at that time.

Starting in 1971, the United States openly abandoned the par value system\textsuperscript{30} (following some departures and aberrations by some other major countries as well), and the member countries of the IMF were forced to change its charter to reflect the reality of the fact that it no longer had any power to manage the par value system. In the 1970s, in addition to struggling with these structural issues, the IMF began to focus on the payment difficulties of poor countries.

Starting in 1982, the IMF focused on coordinating the global response to the debt crises that erupted in the 1980s. During that period, several countries in Latin America and some other developing regions were unable to repay the loans (or even service the periodic payments on them) that they had taken from commercial banks, so they called on the international community for help.\textsuperscript{31} This crisis became public when, in August 1982, Mexico declared that it could no longer service its debts and banks suddenly stopped lending to Latin America.\textsuperscript{32} The debt crisis quickly spread to the rest of the world.\textsuperscript{33}

From about 1990, following the fall of the Berlin Wall and the dissolution of the Soviet Union, the IMF began funding and facilitating the economic transformation of former Soviet Union countries and satellites. In addition, the

\textsuperscript{29} Id.


\textsuperscript{32} Id.

IMF provided financial assistance to the victims of the 1990s financial crises. The 1990s crises include the Mexican crisis in 1994, the Asian Financial Crisis in 1997, the Russian crisis in 1998, and the Brazilian crisis in 1999.

Since the year 2008, the IMF has been on the front lines in lending to countries to help them survive the current global financial crisis. The 2008 global financial crisis is far more severe than the previous crises mentioned earlier. Many say it is the worst financial crisis since the Great Depression. Numerous causes for the financial crisis have been suggested, and a widely accepted reason is that the bursting of the United States housing bubble caused the values of securities tied to the United States real estate pricing to plummet. This caused a chain reaction and consequently damaged financial institutions globally.

To summarize: although the focus of the IMF has evolved constantly in response to the world economic situation, the performance of the IMF has consistently focused on international monetary issues including cooperation, development, exchange stability, and payment difficulties assistance, all of which are still fully consistent with the purposes stated in Article I.

34 The nature of the 1980s crises and 1990s crises were quite different. The 1980s crises involved long-term commercial bank debt which was accumulated in the public sector. The governments of developing countries were unable to repay the debt, so financial rescue operations became necessary. The 1990s crises, by contrast, were often caused by short-term commercial bank debt and/or securities market investment. Particularly in the case of the Asian Financial Crisis, which erupted in 1997, the private sector (not the public sector) was the main culprit. See Debt Crisis of the 1980s, available at http://www.grips.ac.jp/teacher/oono/hp/lecture_F/lec10.htm.

35 Id.


39 Id.
B. The Quota System

Having reviewed the historical purposes of the IMF, it is time to turn to a survey of the IMF current governance structure. The following section will lay a foundation for an understanding of the operational framework of the IMF. Among all components of the IMF, the quota system plays the most significant role in the IMF decision-making process. If we were to look at the IMF as a company, the quota would be its shares. Just as the shares – and their ownership and powers they represent – are essential to a company’s governance, the quotas also are the central components of the IMF’s governing structure.

Quotas are regulated by the IMF’s Articles of Agreement, Article III. Article III defines the quotas as follows:

Each member shall be assigned a quota expressed in special drawing rights. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before December 31, 1945 shall be those set forth in Schedule A. The quotas of other members shall be determined by the Board of Governors. The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository.\footnote{IMF Articles of Agreement, Articles III, section 1.}

Quotas were assigned to each member country when the member joined the IMF. Quotas are denominated (since the 1970s after the first Amendment) in Special Drawing Rights (SDRs).\footnote{See Id. Special Drawing Rights (SDRs) are the IMF’s units of account, and quotas are denominated in SDRs. According to Article XII, each member country is assigned one vote for each 100,000 SDR for its quota. Those votes are also called quota-based votes. See the IMF Articles of Agreement, Articles XII, section 5 “(ii) The quota-based votes of each member shall be the number of votes that results from the allocation of one vote for each part of its quota equivalent to one hundred thousand special drawing rights.” See also Richard N. Cooper & Edwin M. Truman, The IMF Quota Formula: Linchpin of Fund Reform, POLICY BRIEFS IN INTERNATIONAL ECONOMICS 3 (2007).} The SDR is the IMF’s account unit and was
created in 1969 as a reserve asset to supplement the supply of gold. The Bretton Woods System contained an internal contradiction that the increasing demand for international liquidity would require the United States to run a payments deficit to supply more dollars to the world. However, such a payment deficit would also undermine confidence in the link of the U.S. dollar to gold, the foundation of par value system.

To counteract a shortfall of preferred foreign exchange reserve assets, an initial three billion SDRs were created and allocated among member countries in 1970. The SDR is currently defined as a “basket currency” whose value is governed by a combination of the values of the U.S. dollar (63.2 cents), the Euro (41.0 euro cents), the Japanese yen (18.4 yen) and the Pound sterling (9.03 pence). As of 2012, there are 204 billion SDRs altogether in existence.

According to the Articles of Agreement, quotas determine three aspects of a member country’s relationship with the IMF: First, the voting power in the IMF is based on quotas. Each member country is assigned a fixed portion of basic

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42 William provides a good explanation of why it was given the name Special Drawing Right: “Because of a continuing disagreement over whether the new reserve asset should be considered money (“paper gold”) or credit (since countries receiving assets had to reconstitute a part of their endowments in due course), it was given the anodyne name, Special Drawing Right.” See John Williamson, Understanding Special Drawing Rights (SDRs), POLICY BRIEFS IN INTERNATIONAL ECONOMICS 2 (2009).

43 Id.
44 Id.
45 Id.
46 Id.
48 See IMF Articles of Agreement, Articles XII, Section 5 (a). “The total votes of each member shall be equal to the sum of its basic votes and its quota-based votes. (i) The basic votes of each member shall be the number of votes that results from the equal distribution among all the members of 5.502 percent of the aggregate sum of the total voting power of all the members, provided that there shall be no fractional basic votes. (ii) The quota-based votes of each member shall be the number of votes that results from the allocation of one vote for each part of its quota
vote\textsuperscript{49} plus one vote for each 100,000 SDRs for its quota.\textsuperscript{50} In other words, the assigned quota for a member also determines the share of allocations of SDRs for that member country and its voting power. For example, as of May 2013, the United States has the largest quota, 42,122.4 million SDRs (17.69 percent of total quota), thus possessing 421,961 votes (16.75 percent of total votes).\textsuperscript{51} China has 9,525.9 million SDRs (4 percent of total quota) an amount that yields for it 95,996 votes (3.81 percent of total votes).\textsuperscript{52}

Second, quotas affect how much a member country has to pay into the IMF in terms of a subscription.\textsuperscript{53} An amount equaling 25 percent of the subscription is payable in SDRs or convertible foreign exchange\textsuperscript{54} and 75 percent equivalent to one hundred thousand special drawing rights.” See also DANIEL BRADLOW & DAVID HUNTER, INTERNATIONAL FINANCIAL INSTITUTIONS AND INTERNATIONAL LAW 4 (2010).

\textsuperscript{49} Basic votes are the same for all member countries. It is assigned to each member country when they joined the IMF. The concept of basic votes is based on the idea of equality among all member countries. See Ariel Buiura, Reforming the Governance of the IMF and the World Bank, ANTHEM PRESS, 83, (2006). A more detailed discussion of basic votes can be found in the following section.

\textsuperscript{50} BRADLOW & HUNTER, supra note 48 at 4.


\textsuperscript{52} Id.

\textsuperscript{53} See IMF Articles of Agreement, Article III, Section 1, “Each member shall be assigned a quota expressed in special drawing rights. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before December 31, 1945 shall be those set forth in Schedule A. The quotas of other members shall be determined by the Board of Governors. The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository.” The subscription is a financial contribution a member country expected to make when it joins the IMF. The amount of the subscription is based on the member country’s quota.

\textsuperscript{54} For example, U.S. dollars.
is in the member country’s local currency. The former 25 percent portion is usually also considered as a part of the member country’s foreign reserves.\textsuperscript{55}

Third, quotas determine how much access a member country has to IMF resources.\textsuperscript{56} When a member country requests financing, the financial resources offered to that country would be equal to a certain percentage of its quota.\textsuperscript{57} Currently, according to Article V, a member country is entitled to purchase the currencies of other members from the IMF in exchange for an equivalent amount of its own currency in an amount of no more than two hundred percent of its quota.\textsuperscript{58} Although the IMF often places a cap on the financing that a member country can receive, in reality almost all member countries can gain access to financing worth far more than their quotas.

The Articles of Agreement in fact does not establish definitively a particular method for determining quotas of member countries. Instead, it authorizes the Board of Governors to determine the quotas of member countries.\textsuperscript{59} It is commonly accepted that the Board of Governors assigns quotas based on member countries’ economic variables such as national income,

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\textsuperscript{56} See IMF Articles of Agreement, Article V, Section 3, b, “A member shall be entitled to purchase the currencies of other members from the Fund in exchange for an equivalent amount of its own currency subject to the following conditions: … (iii) the proposed purchase would be a reserve tranche purchase, or would not cause the Fund’s holdings of the purchasing member’s currency to exceed two hundred percent of its quota”.

\textsuperscript{57} Id.

\textsuperscript{58} Id.

\textsuperscript{59} The Board of Governors is the highest decision-making body in the IMF. A detailed explanation of the board will be provided in the next section. The IMF Articles of Agreement sets quotas for member countries that accepted membership before December 31, 1945 in Schedule A of the IMF charter. The Board of Governors decides the quotas of other members and makes adjustments. See IMF Articles of Agreement Article III.
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reserves, external trade, and export fluctuations, all of which turn on the
member countries’ economic sizes and their contributions to the world economy. Each member country’s quota was assessed by a quota formula. The current formula is a weighted average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent).

In terms of the assignment of quotas, the Articles of Agreement states that the IMF should conduct a general review of quotas at intervals of not more than five years. However, if the IMF determines that any adjustment is required, or upon any member country’s request, it may review the quota subscription of a country, or of several countries, at any time. As of 2012, the IMF has conducted fourteen general reviews of quotas based on the five-year cycle. However, despite these changes made by the IMF quota reviews, the basic pattern of the IMF’s quota assignment - that developed countries have in aggregate much more quotas assigned to them than developing countries do - still has not changed.

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61 Bradlow & Hunter, supra note 48, at 4.
63 IMF Articles of Agreement, Article III, Section 2, (a), “The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned.”
64 Id.
66 A more detailed comparison of voting power of five European countries (Italy, the Netherlands, Belgium, Sweden, and Switzerland) and five emerging countries (China, India, Korea, Brazil, Mexico) can be found in Chapter Three, Section II. See supra text accompanying notes 377 to 389. The comparison shows that although the five European countries have significantly less economic strength, they have nearly the same vote share as the five emerging countries. See Alexandra A. Arkhangelskaya, Images and Prospects of BRICS in Africa, Fifth BRICS Summit Academic Paper 2 (2013).
As of 2012, the total of all member countries’ quota subscriptions is 204 billion SDRs, or approximately 310 billion U.S. dollars at the exchange rate existing as of August 20, 2012. Such a total quota does not seem as significant as it did in the 1950s, considering the size of the current world economy and world trade. The world total GDP in 1950 was 5,336 billion 1990 international dollars. In 2011, the world total GDP was 70,020 billion U.S. dollars.

Not only has the total quota subscription become relatively less significant, but the need for the IMF’s resources has also been reduced. This is because of the IMF member countries’ growing access to world capital markets and the increased recourse to floating exchange. Indeed, until just the past couple of years the last such use of IMF resources by economically developed countries occurred in the late 1970s. The rapid dismantling of controls over international capital transactions in advanced and emerging market economies also contributed to this development – that is, to growing world liquidity and financing.

In summary, the quota is the most essential concept for IMF member countries, since it determines each member’s contribution to the IMF’s resources,

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67 WEISS, supra note 47, at 6.
68 HOUTVEN, supra note 60, at 6.
69 The international dollar is a hypothetical unit of currency which possesses the same purchasing power of the U.S. dollar at a given point in time in the United States. Here one 1990 international dollar equals one U.S. dollar’s purchasing power in the United States in 1990. See Development Centre Studies, The World Economy, Development Centre of the Organisation for Economic Co-Operation and Development 169 (2006).
71 HOUTVEN, supra note 60, at 6.
72 Id.
the member’s voting power and its access to financing, which are three of the most important aspects of membership in the IMF.73

C. The Basic Votes

When the IMF was established, the voting power of each of its members, and the voting system generally, was regulated by Article XII of the IMF Articles of Agreement, which states that “each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand United States Dollars.”74 After the SDR was introduced by the IMF in 1969, this section was changed to “two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand special drawing rights.”75 For this reason, the vote of each member country of the IMF consists of two components: basic votes and quota-based votes. The amount of basic votes is equal for all member countries, which is 250 votes. The quota based votes are dependent on each member country’s quota.

The fundamental reason to have a two component voting system is because the IMF, as any other international financial institution, has a double character. It is both an inter-governmental organization and a financial institution.76

First, the IMF is an inter-governmental organization established through a multilateral treaty signed and ratified by a number of countries. It is created for a

73 BRADLOW & HUNTER, supra note 48, at 4.
74 For the original Articles of Agreement in 1944, See Amendments of the Articles of Agreement of the International Monetary Fund to Expand the Investment Authority of the International Monetary Fund, Australian Treaty Series, available at http://www.worldlii.org/au/other/dfat/treaties/ATS/2012/5.html.
75 Id.
76 Legal Department and the Quota and Voice Working Group, Proposed Amendment of the Articles of Agreement Regarding Basic Votes—Preliminary Considerations, 1 (2006).
public purpose and its authority and mandates are based on its Articles of Agreement to which all member countries are party. For this reason, because of its public purpose, the IMF has to take the interest of all member countries into account, even those least-developed member countries with scant voting power. The purpose of the basic votes was to “serve the function of recognizing the doctrine of the equality of states.”

Second, the IMF is a financial institution engaging in financial transactions, which makes it similar to a market-based financial organization. Therefore, in addition to the public purpose, the IMF also has a financial purpose. The IMF was mainly funded by developed countries, especially the United States, to achieve this financial purpose. It was agreed in the Bretton Woods Conference that such financial contribution should be recognized as an ingredient of voting power. The double voting system is a combination that reflects the importance of these two purposes.

When the IMF was established, the basic votes played a significant role and served as an effective method to give at least some significant amount of voting power to developing countries who have less quota-based votes. At the Bretton Woods Conference, the 250 basic votes that each member country was allocated amounted in aggregate to 11.26 percent of the total votes in the IMF, but there was no constitutional mechanism to maintain the ratio at that, or any other, fixed rate. After over half a century, as more and more new countries entered the

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77 BRADLOW & HUNTER, supra note 48, at 1.  
79 BRADLOW & HUNTER, supra note 48, at 1.  
80 This situation has dramatically changed, which will be discussed in Chapter Three.  
81 BRADLOW & HUNTER, supra note 48, at 1.  
82 Id.
IMF, the IMF’s overall amount of quota expanded dramatically – by a factor of about 36.7 – and yet the basic votes remained the same.\(^83\) As Bradlow states, the basic votes significantly declined from 11.3 percent at the very beginning to 2.1 percent in 2006, which means “the portion of the IMF’s voting system that offered the smaller and weaker states some counterweight to the dominance of the richest and biggest countries in the IMF has been reduced in importance and the dominance of these richer and bigger countries has been enhanced.”\(^84\)

In 2008, the IMF membership, through an amendment to the Articles of Agreement, revised Article XII and set the basic votes at a fixed ratio at 5.502 percent of the aggregate sum of the total voting power.\(^85\) By maintaining this constant ratio, the new rule will ensure that the basic votes will no longer be diluted by frequent quota expansion in the future. No matter how much the quota based votes or the total votes are to be increased, such a fixed ratio guarantees that the developing countries’ basic votes will increase correspondingly. Of course, the issue remains open as to whether this modification of the system for allocating basic votes offers any significant improvement in the overall governance structure

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\(^{83}\) The overall quota increased 60.7 percent in 1959, 30.7 percent in 1965, 35.4 percent in 1970, 33.5 percent in 1976, 50.9 percent in 1978, 47.5 percent in 1983, 50 percent in 1990, 45 percent in 1998, and 100 percent in 2010. See The IMF, General Quota Reviews, available at http://www.imf.org/external/np/exr/facts/quotas.htm See also Ralph C. Bryant, Reform of Quota and Voting Shares in the International Monetary Fund: “Nothing” Is Temporarily Preferable to an Inadequate “Something”, Brookings Institution, (2008). Bryant said “Historical adjustments in IMF quotas were dominated by increases granted equiproportionately to every member according to its existing quota share. This equiproportionate component was on average some 70 percent of the total increase; in the quota review agreed to in 1978, this fraction was as large as 98 percent.”


\(^{85}\) The 2008 Quota and Voice Reforms of the International Monetary Fund will be discussed at the end of this chapter. See IMF Articles of Agreement, Article XII, Section 5. (a) (i) , “The basic votes of each member shall be the number of votes that results from the equal distribution among all the members of 5.502 percent of the aggregate sum of the total voting power of all the members, provided that there shall be no fractional basic votes.” This amendment to the IMF charter was adopted in 2008, and came into effect in 2011.
of the IMF. That issue will be addressed, with many others, beginning in Chapter Three of this dissertation.

D. The Board of Governors

The Board of Governors sits at the top of the hierarchy of the IMF, and is the highest decision-making body of the IMF.\footnote{The International Monetary Fund, \textit{Governance Structure}, available at http://www.imf.org/external/about/govstruct.htm.} If we were to think of the IMF as a country, then we would see the Board of Governors serving the same function as a congress, a parliament, or an equivalent authoritative legislative body.

According to Article XII Section 2, the Board of Governors consists of one governor and one alternate governor for each member country, as appointed by such member country.\footnote{See IMF Articles of Agreement, Article XII, Section 2, (a), “The Board of Governors shall consist of one Governor and one Alternate appointed by each member in such manner as it may determine. Each Governor and each Alternate shall serve until a new appointment is made. No Alternate may vote except in the absence of his principal. The Board of Governors shall select one of the Governors as Chairman.”} Traditionally, these governors and alternate governors are all ministers of finance, or governors of the central banks of the member countries. Take the United States as an example. As of the year 2013, the United States’ governor in the Board of Governors is Timothy F. Geithner, the current United States Secretary of the Treasury.\footnote{See IMF, \textit{IMF Members’ Quotas and Voting Power, and IMF Board of Governors}, available at http://www.imf.org/external/np/sec/memdir/members.aspx.} The alternate governor is Ben S. Bernanke, the current chairman of the Federal Reserve.\footnote{Id.} However, only the governor has the right to vote, except when the governor is absent.\footnote{IMF Articles of Agreement, Article XII, Section 2, (a).} It is worth noting that the governor does not vote for himself – that is, in his or her personal...
capacity. Instead, when a vote is cast, the governor or the alternate governor votes on behalf of the member country that he or she represents.\textsuperscript{91}

One of the governors is selected as the Chairman by the Board of Governors. The chairman serves for a full year, starting from the end of an annual meeting until the following annual meeting.\textsuperscript{92} Such a chairmanship is rotated among all regions of the world.\textsuperscript{93}

The powers of the Board of Governors are enumerated in the Articles of Agreement, and include approving quota increases, special drawing right (SDR) allocations, admitting new members, compulsory withdrawal of members, and amending the Articles of Agreement and By-Laws.\textsuperscript{94} Since the powers regulate decisions which are regarded as sensitive and important, in order to make sure that such decisions are broadly supported, it is generally governed by the

\textsuperscript{91} Alexander Mountford, \textit{The Formal Governance Structure of the International Monetary Fund}, IEO BACKGROUND PAPER, 7 (2008). When a governor votes for any issue brought to the Board of Governors, he casts the number of votes allotted to the member countries which appoint him. \textit{Id.}

\textsuperscript{92} \textit{Id.} at 6

\textsuperscript{93} \textit{Id.}

\textsuperscript{94} See IMF Articles of Agreement, Article III, Section 2, (a), “The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned.” Article XVIII, Section 4, (a), “Decisions under Section 2 [Allocation and Cancellation of Special Drawing Rights] (a), (b), and (e) or Section 3 [Unexpected major developments] of this Article shall be made by the Board of Governors on the basis of proposals of the Managing Director concurred in by the Executive Board.” Article XXVIII, (a), “Any proposal to introduce modifications in this Agreement, whether emanating from a member, a Governor, or the Executive Board, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board of Governors. If the proposed amendment is approved by the Board of Governors, the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having eighty-five percent of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.”
requirement of a special majority of either 70 percent or 85 percent of the total voting power in the Board of Governors.95

In terms of this special majority requirement, the IMF Articles of Agreement regulates various circumstances that require such a special majority of total voting power.96 The following are some of the “special majority” provisions in the Articles of Agreement:

Article III, Section 2 (c): “An eighty-five percent majority of the total voting power shall be required for any change in quotas.”

Article III, Section 3 (d): “A seventy percent majority of the total voting power shall be required for any decision under (a) above97, except for the determination of a period and the specification of currencies under that provision.”

Article IV, Section 2 (c): “To accord with the development of the international monetary system, the Fund, by an eighty-five percent majority of the total voting power, may make provision for general exchange arrangements without limiting the right of members to have exchange arrangements of their choice consistent with the purposes of the Fund and the obligations under Section 1 of this Article.”

Article IV, Section 4: “The Fund may determine, by an eighty-five percent majority of the total voting power, that international economic conditions permit the introduction of a

95 Mountford, supra note 91.

96 The IMF Articles of Agreement regulates special majority in 46 provisions. Here I only list some of the most common circumstances that require a special majority vote.

97 Section 3 (a) states that “Each member which consents to an increase in its quota under Section 2(a) of this Article shall, within a period determined by the Fund, pay to the Fund twenty-five percent of the increase in special drawing rights, but the Board of Governors may prescribe that this payment may be made, on the same basis for all members, in whole or in part in the currencies of other members specified, with their concurrence, by the Fund, or in the member’s own currency. A non-participant shall pay in the currencies of other members specified by the Fund, with their concurrence, a proportion of the increase corresponding to the proportion to be paid in special drawing rights by participants. The balance of the increase shall be paid by the member in its own currency. The Fund’s holdings of a member’s currency shall not be increased above the level at which they would be subject to charges under Article V, Section 8(b)(ii), as a result of payments by other members under this provision.”
widespread system of exchange arrangements based on stable but adjustable par values.”

Article V, Section 7: “The Fund, by an eighty-five percent majority of the total voting power, may change the periods for repurchase under this subsection, and any period so adopted shall apply to all members.”

Article XII, Section 1: “The Fund shall have a Board of Governors, an Executive Board, a Managing Director, and a staff, and a Council if the Board of Governors decides, by an eighty-five percent majority of the total voting power, that the provisions of Schedule D98 shall be applied.”

Article XII, Section 3: “For the purpose of each regular election of Executive Directors, the Board of Governors, by an eighty-five percent majority of the total voting power, may increase or decrease the number of Executive Directors in (ii) above.”

Article XII, Section 6 (d): “The Fund, by a seventy percent majority of the total voting power, may decide at any time to distribute any part of the general reserve. Any such distribution shall be made to all members in proportion to their quotas.”

Article XV, Section 2: “The method of valuation of the special drawing right shall be determined by the Fund by a seventy percent majority of the total voting power, provided, however, that an eighty-five percent majority of the total voting power shall be required for a change in the principle of valuation or a fundamental change in the application of the principle in effect.”

Article XIX, Section 2 (c): “The Fund, by a seventy percent majority of the total voting power, may prescribe operations in which a participant is authorized to engage in agreement with another participant on such terms and conditions as the Fund deems appropriate.”

Article XX, Section 3: “The Fund shall determine the rate of interest by a seventy percent majority of the total voting power. The rate of charges shall be equal to the rate of interest.”

Article XXIII, Section 1: “In the event of an emergency or the development of unforeseen circumstances threatening the activities of the Fund with respect to the Special Drawing Rights

98 Schedule D of the Articles of Agreement regulates how the Council should consist and operate.
Department, the Executive Board, by an eighty-five percent majority of the total voting power, may suspend for a period of not more than one year the operation of any of the provisions relating to operations and transactions in special drawing rights, and the provisions of Article XXVII, Section I(b), (c), and (d) shall then apply.”

Article XXVI, Section 2 (b): “If, after the expiration of a reasonable period following a declaration of ineligibility under (a) above, the member persists in its failure to fulfill any of its obligations under this Agreement, the Fund may, by a seventy percent majority of the total voting power, suspend the voting rights of the member. During the period of the suspension, the provisions of Schedule L shall apply. The Fund may, by a seventy percent majority of the total voting power, terminate the suspension at any time.”

Article XXVII, Section 1 (a): “In the event of an emergency or the development of unforeseen circumstances threatening the activities of the Fund, the Executive Board, by an eighty-five percent majority of the total voting power, may suspend for a period of not more than one year the operation of any of the following provisions: (i) Article V, Sections 2, 3, 7, 8(a)(i) and (e); (ii) Article VI, Section 2; (iii) Article XI, Section 1; (iv) Schedule C, paragraph 5.”

From the above special majority provisions, we can conclude that the 70 percent majority rule is applied to financial and operational issues, such as distribution of general reserve or the methods of evaluation of the SDRs.99 The 85 percent majority rule is required for the most important decisions of the IMF, such as “the admission of new members, increases in quotas, allocations of SDRs, and amendments to the IMF’s Articles of Agreement.”100

The requirement of special majority has been increased over the past decades. Indeed, as Van Houtven states, “[t]he original Articles required special majorities for 9 categories of decisions. In the first amendment, that number rose to 21 and in the second amendment it more than doubled again to over 50. At the

99 *Weiss, supra* note 47, at 7.
100 *Id.*
same time, the number of special majorities was simplified and reduced to two: 70 percent and 85 percent. The third amendment added one category of special voting majority. This is because the IMF has increasingly expanded its responsibilities which require important policy decisions; consequently, the IMF must obtain very wide support from its member countries in order to achieve this.

In addition to the powers of the Board of Governors that are enumerated in the Articles of Agreement, the Articles of Agreement also states that any power which is not explicitly vested in the Executive Board and the Managing Director are retained by the Board of Governors. However, in reality, the Board of Governors delegates most of these powers to the Executive Board, under Article XII, Section 2 (b). The following sub-section will further discuss the power of the Executive Board.

To execute the powers contained in the Articles of Agreement, the Board of Governors holds annual meetings to discuss the institution’s work, which normally take place in the fall every year. Usually, the IMF holds the annual meetings together with the World Bank. Besides annual meetings, the Board of

101 HOUTVEN, supra note 60, at 73.
102 Id.
103 IMF Articles of Agreement, Article XII, Section 2, (a): “All powers under this Agreement not conferred directly on the Board of Governors, the Executive Board, or the Managing Director shall be vested in the Board of Governors.”
104 IMF Articles of Agreement, Article XII, Section 2, (b): “The Board of Governors may delegate to the Executive Board authority to exercise any powers of the Board of Governors, except the powers conferred directly by this Agreement on the Board of Governors.”
105 There are actually two meetings every year, one in the fall and the other in the spring. However, the fall meetings are the main ones. The spring meeting usually do not includes the entire Board of Governors. See also The International Monetary Fund, Governance Structure, available at http://www.imf.org/external/about/govstruct.htm.
106 Id.
Governors also vote remotely, through the use of courier services, electronic mail, facsimile, or the IMF’s secure online voting system.107

In order to advise the Board of Governors, the IMF has established two advisory committees – the International Monetary and Financial Committee (IMFC) and the Development Committee. The IMFC is “responsible for advising, and reporting to the IMF Board of Governors as it manages and shapes the international monetary and financial system.”108 Traditionally, the Development Committee focuses on developing countries’ critical development issues, but now it also includes trade and global environmental issues.109 Both committees meet twice a year and have roughly 25 members.

E. The Executive Board

Continuing the metaphor of the IMF as a country, the Board of Governors serves as its congress or other legislative organ. The Executive Board, obviously, acts as an executive branch – what in many national systems would be called “the government”.

Like a government (executive organ), the Executive Board is responsible for executing all of the IMF’s business, except those explicitly vested in the Board of Governors. As a matter of fact, since the Board of Governors only meets once a year, it delegates most of its powers, that is, those not explicitly identified in the Articles of Agreement to be non-delegable, to the Executive Board to exercise. This gives the Executive Board the central role in the decision-making process in the IMF. This delegation of powers was agreed to by a resolution adopted at the

109 Id.
first annual meeting of the governors in 1946.\textsuperscript{110} The resolution is now embodied in Section 15 of the By-Laws.\textsuperscript{111}

In addition, the Articles of Agreement states that the Executive Board should consist of five Executive Directors appointed by “five members having the largest quotas” and 15 Executive Directors elected by the other member countries, making the total number of Executive Directors 20.\textsuperscript{112} However, the Articles of Agreement also vests in the Board of Governors the power to increase the number of Executive Directors to be elected on the occasion of a regular election by an 85 percent majority.\textsuperscript{113} As the number of IMF member countries increased from 40 in 1946 to 188 in 2012, the size of the Executive Board grew as well. In 1992, the Executive Board was expanded from 20 to 24 members.\textsuperscript{114} These Executive Directors represent all 188 member countries.

In the Executive Board, each of the five member countries with the largest quota – the United States, Japan, Germany, France and the United Kingdom – is automatically entitled to appoint an Executive Director. Three member countries, namely, China, Russia, and Saudi Arabia can elect an Executive Director as a

\begin{footnotesize}
\begin{enumerate}
\item Mountford, supra note 91, at 7.
\item Id. See By-Laws of the International Monetary Fund, Section 15 Delegation of Authority. “The Executive Board is authorized by the Board of Governors to exercise all the powers of the Board of Governors except those conferred directly by the Articles of Agreement on the Board of Governors.” It was adopted March 16, 1946, amended October 2, 1969, and June 13, 1978.
\item IMF Articles of Agreement, Article XII, section 3, (b): “The Executive Board shall consist of Executive Directors with the Managing Director as chairman. Of the Executive Directors: (i) five shall be appointed by the five members having the largest quotas; and (ii) fifteen shall be elected by the other members.” 
\item See IMF Articles of Agreement, Articles XII, section 3, (b): “For the purpose of each regular election of Executive Directors, the Board of Governors, by an eighty-five percent majority of the total voting power, may increase or decrease the number of Executive Directors in (ii) above.” See also Mountford, supra note 91, at 10.
\end{enumerate}
\end{footnotesize}
single-country constituency; thus the Executive Director is obviously from that country. Among all 24 Executive Directors, these eight member countries have their own Executive Directors representing their countries.\textsuperscript{115} These eight countries also represent the eight large economies in the world.\textsuperscript{116}

The rest of the member countries form 16 constituencies and elect 16 Executive Directors. Each Executive Director is entitled to appoint one alternate director and a number of advisors and assistants.\textsuperscript{117} For each of those Executive Directors appointed by single-country constituencies, it is possible to appoint seven advisors or assistants.\textsuperscript{118} For each of those Executive Directors who are elected by multi-country constituencies, it is possible to appoint six advisors or assistants.\textsuperscript{119}

For those constituencies consisting of multiple countries, often a person from the member country, which has large voting power, will be elected the Executive Director of that constituency. For example, the constituency of Armenia (1,657 votes), Belgium (46,789 votes), Bosnia & Herzegovina (2,428 votes), Bulgaria (7,139 votes), Croatia (4,388 votes), Cyprus (2,319 votes), Georgia (2,240 votes), Israel (11,348 votes), Luxembourg (4,924 votes), Macedonia, FYR (1,426 votes), Moldova (1,969 votes), Montenegro (1,012 votes), Netherlands (52,361 votes), Romania (11,039 votes), and Ukraine (14,457 votes), elected

\textsuperscript{115} Although it looks similar, the Executive Directors representing United States, Japan, Germany, France and the United Kingdom are appointed Executive Directors, appointed by these five countries, while the Executive Directors representing China, Russia and Saudi Arabia are elected Executive Directors, elected by these three countries.

\textsuperscript{116} Although these economies are large, they are not the eight largest economies in the world.

\textsuperscript{117} Mountford, supra note 91, at 11.

\textsuperscript{118} Id. at 12.

\textsuperscript{119} Id.
Menno Snel, from the Netherlands, to serve as the Executive Director for the constituency.\textsuperscript{120}

Looking at the current list of Executive Directors\textsuperscript{121}, it is noteworthy that among the 16 constituencies, only five Executive Directors are not from the member country with the most votes in that constituency.\textsuperscript{122} Even in these exceptions, the Executive Directors are usually from member countries that have the second most votes in that constituency. Furthermore, in three out of these five constituencies, the alternative directors are still nationals of the member countries having the largest vote.\textsuperscript{123}

Since the Articles of Agreement does not regulate the details regarding the manner in which a constituency should carry out the election of its Executive Director, each constituency has its own constituency agreement that defines the election of the executive director.\textsuperscript{124} This allows many countries to switch from one constituency to another, so the actual composition of a constituency does not

\textsuperscript{120}The IMF, *International Monetary Fund Composition Of The Executive Board*, available at http://www.imf.org/external/np/sec/memdir/ED_110112.pdf


\textsuperscript{122}Id. For example: Jose A. Rojas (Venezuela) was elected by the constituency of Costa Rica (1,891) El Salvador (1,963) Guatemala (2,352) Honduras (1,545) Mexico (31,778) Nicaragua (1,550) Spain (30,739) Venezuela (26,841).

\textsuperscript{123}Id. For example: Argentina has the largest vote in the constituency of Argentina (21,421) Bolivia (1,965) Chile (8,811) Paraguay (1,249) Peru (6,634) Uruguay (3,315) The Executive Director Javier Silva-Ruete is from Peru, but the alternative executive director Héctor R. Torres is from Argentina.

\textsuperscript{124}It is true that the Schedule E to the IMF Articles of Agreement provides some general guidelines about the election of the Executive Directors. However, each constituency operates its affairs largely according to its own rules and conventions. See Ngaire Woods & Domenico Lombardi, *Uneven Patterns of Governance: How Developing Countries Are Represented in the IMF*, REVIEW OF INTERNATIONAL POLITICAL ECONOMY, 13, (2006). See also Peter Brandner & Harald Grech, *Unifying EU Representation at the IMF – A Voting Power Analysis*, FEDERAL MINISTRY OF FINANCE WORKING PAPER 2, 9, (2009).
always stay the same.\textsuperscript{125} Although there are no official documents stating the reason or reasons for such a switch, it is believed that many countries will change from one constituency to another in order to gain greater benefits and to obtain a better position in negotiations.\textsuperscript{126}

For example, Indonesia first was a member of the constituency headed by an Italian Executive Director in the 1950s, but later changed to a constituency comprised of the Islamic countries of North Africa and Malaysia.\textsuperscript{127} Eventually, Indonesia switched again and formed a more geographically-tidy constituency with Korea, the Philippines, and Vietnam.\textsuperscript{128} The same situation occurred in the case of Australia as well. Australia formed a constituency with South Africa when it joined the IMF in 1947.\textsuperscript{129} That constituency later included several countries from southern Africa and the Pacific, including Lesotho, Swaziland, New Zealand, and Western Samoa.\textsuperscript{130} In the 1970s, many African member countries started to move to other constituencies, while new Asian countries including Korea and the Philippines joined that constituency with Amsterdam and South Africa.\textsuperscript{131} Now this constituency includes fourteen countries of the whole Pacific region.\textsuperscript{132}

\textsuperscript{125} Alexander Mountford, \textit{The Formal Governance Structure of the International Monetary Fund}, IEO BACKGROUND PAPER, 10 (2008).

\textsuperscript{126} See Ngaire Woods and Domenico Lombardi, \textit{Uneven Patterns of Governance: How Developing Countries Are Represented in the IMF}, \textit{REVIEW OF INTERNATIONAL POLITICAL ECONOMY}, 13, (2006). “[C]onstituencies have changed over time as individual countries have switched alliances in search of more influence within their group or in order to form a more coherent regional or other grouping.”

\textsuperscript{127} \textit{Id}. This constituency eventually also was joined by Laos and Singapore.

\textsuperscript{128} \textit{Id. See also} Peter Brandner, Harald Grech, \textit{Unifying EU Representation at the IMF – A Voting Power Analysis}, FEDERAL MINISTRY OF FINANCE WORKING PAPER 2, 10, (2009).

\textsuperscript{129} \textit{Id}.

\textsuperscript{130} \textit{Id}.

\textsuperscript{131} \textit{Id}.

\textsuperscript{132} \textit{Id}.
An Executive Director of a constituency must cast all votes that he or she represents and cannot split the vote. In addition, the constituency usually follows the opinion of the member country that has the largest votes. In other words, because each constituency can only have one voice, it is usually the voice of the country with the largest number of votes. In the constituency referred to above that included the Netherlands, Belgium, and several central and eastern European countries – currently headed by a Netherland Executive Director – when a vote is cast, it usually follows the Netherlands’ opinion.

Since the Executive Board is responsible for conducting the everyday business of the IMF, the Executive Directors serve on a full-time basis and meet regularly. According to one source, the Executive Board meets “more than 12 hours a week and over 600 hours per year.” Normally, the Managing Director, who is elected by the Executive Board according to the Articles of Agreement, chairs the Executive Board meetings.

The Executive Board meetings address issues that are involved in almost every aspect of the IMF’s activities. One source indicates that among the 462 hours of formal Board and committee meetings that occurred in a particular year, “42 percent were for country items, 23 percent for policy items, five percent for

133 The votes an Executive Director represents are also the votes all member countries in that constituency voted for him. See Dennis Leech, Voting Power in the Governance of the International Monetary Fund, 109 ANNALS OF OPERATIONS RESEARCH, 374, (2002).
134 See also Ariel Buira, Reforming the Governance of the IMF and the World Bank, ANTHEM PRESS, 259, (2005). “A constituency may not split its vote although it can instruct its director to abstain.” Id.
135 Leech, supra note 133, at 374.
137 HOUTVEN, supra note 60, at 14.
138 IMF Articles of Agreement, Article XII, section 4, (a), “The Executive Board shall select a Managing Director who shall not be a Governor or an Executive Director.”
139 Mountford, supra note 91, at 14.
‘multilateral surveillance’, 3.5 percent for administrative items...” Based on this source, except for the administrative issues that arise, the Board meetings mainly focus on country issues, policy discussions, and surveillance.

Theoretically, to reach an effective conclusion requires a quorum of Executive Directors who have, in aggregate, at least half of the total voting power. In reality, however, the Executive Board members will seldom cast a vote. Most of the time, the Board meetings make decisions based on consensus, rather than on the basis of formal votes.

In rare cases in which a decision should be made by casting a formal vote during a Board’s meeting, that decision would be made by weighted voting. Each appointed Executive Director is entitled to cast a vote representing the total voting power of the member country that appointed him. For each elected Executive

140 Id.
141 The obligation of “surveillance” is regulated by Articles of Agreement, Article IV, Section 3. It is defined as the responsibility to “oversee the international monetary system in order to ensure its effective operation, and ... oversee the compliance of each member with its obligations under Section 1 of this Article.” In order to fulfill such surveillance duty, “the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member’s exchange rate policies.”
142 IMF Articles of Agreement, Article XII, section 3, (h), “A quorum for any meeting of the Executive Board shall be a majority of the Executive Directors having not less than one-half of the total voting power.”
143 See HOUTVEN, supra note 60, at 14, “Decision making by consensus has, from the outset, been a central feature of the Board’s work.”
144 Id. See also By-Laws Rules and Regulations of the IMF, C-10, “[t]he Chairman shall ordinarily ascertain the sense of the meeting, in lieu of a formal vote.” Available at http://www.imf.org/external/pubs/ft/bl/bcon.htm
145 IMF Articles of Agreement, Article XII, section 3, (i), (i) “Each appointed Executive Director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.”
Director, the number of votes he or she is entitled to is equal to the number of votes that counted towards his or her election.\textsuperscript{146}

F. The Managing Director and Staff

The Articles of Agreement only has a vague definition of the Managing Director. Article XII Section 4 states that the Managing Director shall be selected by the Executive Board and he shall not be a Governor or an Executive Director.\textsuperscript{147} He is the chairman of the Executive Board, but does not vote unless there is an equal division.\textsuperscript{148} He may participate in the meetings of the Board of Governors, but has no right to vote.\textsuperscript{149} The Executive Board also has the right to remove him from office.\textsuperscript{150}

The Managing Director has always been a European since the establishment of the IMF, even though the Articles of Agreement does not explicitly state this as a requirement. In contrast, the President of the World Bank is always from the United States. This informal allocation of power takes the form of a “gentlemen’s agreement”, more precisely an unspoken acknowledgement, and has lasted for a long time, in spite of being criticized by many member countries, scholars, and other observers. Because the Managing Director is selected by the Executive Board, obviously the countries having the most votes

\textsuperscript{146} IMF Articles of Agreement, Article XII, section 3, (i), (iii) “Each elected Executive Director shall be entitled to cast the number of votes which counted towards his election.”

\textsuperscript{147} IMF Articles of Agreement, Article XII, section 4, (a) “The Executive Board shall select a Managing Director who shall not be a Governor or an Executive Director. The Managing Director shall be chairman of the Executive Board, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The Managing Director shall cease to hold office when the Executive Board so decides.”

\textsuperscript{148} Id.

\textsuperscript{149} Id.

\textsuperscript{150} Id.
have the most influence on the selection. It is the same situation for the World Bank’s selection of a president.\textsuperscript{151}

Although, technically speaking, the Managing Director is only an employee of the IMF, he is regarded as the face of the IMF and has a huge influence on the world economy. Because of the importance of the IMF in the modern world, the Managing Director’s position is considered “one of the most influential official functions today in the world of international finance.”\textsuperscript{152}

The Articles of Agreement does not regulate the Deputy Managing Director’s position. There was only one Deputy Managing Director when the IMF was founded. In the 1990s, as the IMF grew, the number of Deputy Managing Directors went up to three.\textsuperscript{153} As of the year 2013, the Managing Director is assisted by a First Deputy Managing Director and three Deputy Managing Directors.\textsuperscript{154} The Deputy Managing Directors, including the First Deputy Managing Director, are appointed by the Managing Director.\textsuperscript{155} Both the Managing Director and all of the Deputy Managing Directors are assisted by a few counselors from the IMF’s top staff.\textsuperscript{156}

\textbf{III. IMF Governance Reforms in the 2000s}

\textsuperscript{151} It is the same that countries having the most vote would have most influence in the World Bank’s selection of a president.
\textsuperscript{152} HOUTVEN, supra note 60, at 16.
\textsuperscript{153} Id.
\textsuperscript{155} Id.
\textsuperscript{156} HOUTVEN, supra note 60, at 16.
In the year 2008, the IMF conducted an unprecedented historical reform.\textsuperscript{157} The IMF took an important first step towards governance reform by increasing voting share for 135 countries and emphasizing low-income countries’ voting power and their participations in the IMF’s activities.\textsuperscript{158} Two years later, in 2010, the IMF furthered the 2008 reform and approved a more far-reaching governance reform package.\textsuperscript{159} Both the 2008 reform and 2010 reform were recommended by the Executive Board in the form of proposing amendments to the IMF Articles of Agreement, since they were major governance structure reforms.\textsuperscript{160}

The 2008 reform package included two amendments (the fifth amendment and the sixth amendment to the Articles of Agreement), namely, “Amendment of the Articles of Agreement of the International Monetary Fund to Enhance Voice and Participation in the International Monetary Fund” (the fifth amendment), and “Amendment of the Articles of Agreement of the International Monetary Fund to Expand the Investment Authority of the International Monetary Fund” (the sixth amendment).\textsuperscript{161} The fifth amendment was approved in Washington on May 5, 2008, and entered into force on February 18, 2011.\textsuperscript{162} The sixth amendment


\textsuperscript{159} Id.

\textsuperscript{160} The 2008 and 2010 Quota and Voice Reforms were major governance structure reforms, introducing modifications in the Articles of Agreement, and thus required the amendments to the IMF’s Articles of Agreement.


\textsuperscript{162} Id.
was approved in Washington on April 28, 2008, and entered into force on March 3, 2011.\footnote{\textit{Id.}}

The 2008 reform included a more transparent quota formula, a quota increase, general quota reviews every five years, an adjustment of the basic votes and the addition of Alternate Executive Directors for African Chairs. It is worth noting that in this reform, the basic votes were changed to a fixed rate, which dramatically increased the protection of the voice of the least developed member countries.

The 2010 reform included a proposed quota increase (\“proposed quota increases under the 14th General Review of Quotas\”) and a proposed amendment (\“Proposed Seventh Amendment on the Reform of the Executive Board\” or \“the seventh amendment\”), which were adopted by the Board of Governors but have not entered into force yet.\footnote{\textit{Id.}}

The 2010 reform included three major aspects: First, more voting power was given to the emerging market countries, so that they will have a bigger say in the IMF. Second, the IMF will implement more flexible ways to lend money.

\footnote{\textit{Id.}}

\footnote{The requirements of acceptance of the proposed quota increase and the proposed amendment are different. For the proposed quota increases under the 14th General Review of Quotas to become effective, members having not less than 85 percent of the total voting power must consent to the increases in their quotas. \textit{See IMF, Articles of Agreement, Article III, Section 2 (c), \“An eighty-five percent majority of the total voting power shall be required for any change in quotas.\”}}

\footnote{For the proposed amendment, any ratification to the Articles and Agreements requires three-fifths of the members, having eighty-five percent of the total voting power. \textit{See IMF, Articles of Agreement, Article XXVIII (a) \“Any proposal to introduce modifications in this Agreement, whether emanating from a member, a Governor, or the Executive Board, shall be communicated to the chairman of the Board of Governors who shall bring the proposal before the Board of Governors. If the proposed amendment is approved by the Board of Governors, the Fund shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having eighty-five percent of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.\”}
Third, the general financial resources of the IMF will be doubled. Changes of governance structure reform including further shifting voting power to emerging markets and developing countries, as well as a rebalancing to the Executive Board, were included in the first aspect and will be discussed in detail later.

The 2008 and 2010 reform can be regarded as potentially addressing the governance problems that the IMF was facing, and they have certainly shown a positive direction in solving these problems. Despite this promising start, I view the reforms more as symbolic steps than actually tangible improvement (and I will fully discuss this point in Chapter Three and Chapter Four). In terms of governance structure reform, a simple reallocation of quota is far from enough. It requires a much further and fundamental reform to solve the IMF’s governance structure problem.

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CHAPTER TWO  REVIEW OF LITERATURE RELEVANT TO THE THREE KEY QUESTIONS

This chapter provides a “literature review” – that is, a brief summary of various positions that have been taken on the issues addressed in this dissertation. Discussion will mainly focus on the three key questions I raised in Chapter One – “Is the IMF still needed?”, “Why is the IMF not working as expected?”, and “In what ways should the IMF reform?” – along with an analysis of the methods and conclusions of scholars who have conducted research on these issues. Special attention is given to the writings of Philipp Maier, Ngaire Woods, and Daniel Bradlow. As explained more fully below, Maier’s scholarship discusses the first key question and contends that we do not need the IMF anymore; Woods’ writing sets up principles and standards for the good governance of international institutions, thereby providing a model by which this dissertation is able to address the second key question and conclude that the IMF does not have a good governance structure; and Bradlow’s scholarly work focuses mainly on the third key question, by pointing out a list of reforms that the IMF should take. In addition to these three authorities, of course, numerous other observers have made assertions, offered critiques, and proposed changes in respect to the IMF’s governance structure. The final segment of this chapter surveys those contributions to the literature, although in somewhat less detail than is devoted to
the three authors mentioned above. This dissertation also relies on other type of scholarly literature on related matters – especially on the issues of decision-making system – which can be seen in Chapter Three and Chapter Four.

I. Philipp Maier and the First Key Question: The IMF Is No Longer Needed

A particularly useful and broad contribution to the literature surrounding the IMF – and one that gives special attention to the first question I have identified above – is a 2007 publication by Philipp Maier, who is an official at Bank of Canada and has also served at Bank of America. Maier is widely published on matters of international finance. The publication by Maier that holds most relevance here, titled Do We Need the IMF to Resolve a Crisis? Lessons from Past Episodes of Debt Restructuring, was published in 2007 as a Bank of Canada Working Paper.166

In this paper, Maier offers positive reviews of the IMF’s role. In the first part of the paper, he raises the question of whether or not the IMF might slide into obscurity, which is also a concern shared by many other scholars. He then states:

[T]his is not because the world has run out of economic crises: recent sovereign debt crisis episodes include the Mexican crisis in 1994, East Asia in 1997, followed by Russia, Brazil, Pakistan and Ukraine in 1998, Ecuador in 1999, and finally Turkey, Argentina and again Brazil in 2001. The need to find ways to limit the economic costs that may arise from a disorderly debt restructuring process is there. The question is, however,

whether the IMF is (still) the right institution to fulfill this task.\textsuperscript{167}

To answer this question, Maier starts by reviewing the biggest existing problems for the world economy over the past centuries – a series of debt crises, dates its origin back to 1880. He finds that the debt crisis is an old problem, though it is much more recognized in the modern world.

Maier further discusses the fundamental reasons why a borrower and a creditor need a third party to solve these debt crises. Maier states in his paper:

\begin{quote}
With full information and perfect enforceability, debt restructurings would seem relatively straightforward: the sovereign borrower and its private creditors could negotiate on the reduction of debt in net present value terms to maximise debtor and creditor welfare, and the degree of domestic adjustment necessary. In the real world, however, such information is not available: typically, borrowers and lenders disagree on the future path of the economy and the policy adjustments necessary (and feasible) to ensure a sustainable, positive economic development. This is made worse by some countries being large enough to be “systemic” – i.e. if they find themselves in difficulties, economic hardship may spread to other economies as well (Didier et al. 2006).\textsuperscript{168}
\end{quote}

Having recognized that a mere need for information alone does not provide sufficient grounds for debtors and creditors to request the involvement of a third party, Maier talks about two views on the effects of third party actions on negotiations between debtors and creditors. A third party can organize creditors’ actions or can guide and oversee the restructuring process in the debtor country. The IMF can serve in such a role as a third party. He concludes that the sovereign

\textsuperscript{167} Id.

\textsuperscript{168} Id.
debt crisis is conceptually similar to corporate debt and a third party is necessary to stabilize the negotiation.

Following the above analysis, Maier looks back at debt crises in history and concludes that the fundamental nature of the sovereign debt crisis changed over time. The financial market evolved and became better able to deal with risk and also to hedge against it. As a result, the incentives have changed. Countries have more access to better information and financial resources. Maier concludes: “The demand for a third party may still exist, but it need not be the IMF.”

Finally, Maier reaches his conclusion that the IMF’s involvement is still very attractive to emerging economies, because the IMF might help them by coordinating problems among creditors. However, from the perspective of advanced economies, the IMF is not needed, because their financial markets are better at hedging against market risks.

Maier does not address at least three important points in his paper. In the first place, Maier sees the necessity of involving a third party in the transaction, but believes this third party does not have to be the IMF. If, however, such a third party is an international organization, it would be best for an international financial institution to play the role. Among all international financial institutions, the IMF is the only one which has specialized in monitoring transactions between creditor countries and debtor countries. Indeed, when managing the international monetary system, a specific international financial institution – the

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169 Id.

170 Another reason Maier offers is “official negotiations with the IMF might also act as a signal for financial markets that the local authorities are effectively dealing with the crisis (which might help to restore confidence in a troubled economy)”. Id. at 17.

171 Maier also points out that “there is the risk that the IMF encourages opportunistic defaults and overly risky investor behaviour”. Id. at 17.

172 See IMF Articles of Agreement, Article I.
IMF – has been most effective.\(^{173}\) Many regional banks and financial organizations also have similar roles in their regions, but not on an international level.

Second, Maier mainly focuses on sovereign debt crises, yet does not differentiate them from other financial crises, such as the global financial crisis beginning in 2008. The most recent global financial crisis contains various elements in addition to sovereign debt. For many countries, the recent global financial crisis was not caused by government over-borrowing but rather was mainly caused by under-regulation of financial institutions by the government.\(^{174}\)

The last problem relates to the alternative resources that Maier talks about in his paper. In the modern world, countries have more options to obtain financial resources when they need them. In fact, many countries and regional banks have been more actively participating in providing loans than in the past. Although they would not attach an official set of conditions to the loans, as the IMF does, most of the time those lenders do also expect some “considerations” for providing financial resources. For instance, China provided a US $66 million loan to Ghana in 2006, and signed an agreement for another US $3 billion loan with Ghana in 2010.\(^{175}\) The Chinese government did not explicitly impose any conditions on the

\(^{173}\) C. Fred Bergsten, Managing the World Economy of the Future, Managing the World Economy: Fifty Years After Bretton Woods 347 (Peter B. Kenen ed., 1994). Bergsten also asserts that “[t]he World Bank has been more effective at promoting economic growth than at social engineering. The GATT has faltered when attempting to move from trade into related areas, such as investment or the environment”, leading the conclusion that functional specificity works best.

\(^{174}\) While the cause of the 2008 global financial crisis was complicated, deregulation of financial markets was widely regarded as one of the main causes. See Richard J. Payne, Global Issues: Politics, Economics, and Culture, Fourth Edition 141 (2012).

agreement, but the government of Ghana admitted that “acknowledgment of the One China Policy is the pre-condition of this financial aid”. 176

I dissent from Maier’s opinion that the IMF is no longer needed, a point on which I will elaborate more fully in Chapter Three.

II. Ngaire Woods and the Second Key Question: Principles and Standards for International Institutional Governance

Another useful article that contributes to the second key question is a 1999 publication by Ngaire Woods, who is the inaugural Dean of the Blavatnik School of Government and Professor of Global Economic Governance, University of Oxford. 177 The publication, titled Good Governance in International Organizations, was published in a 1999 issue of the journal Global Governance. 178

Woods focuses on the concept of “good governance”. She lists three factors that serve as key principles to determine the presence or absence of good governance in international organizations in general. These factors are “participation”, “accountability”, and “fairness”. She then highlights some existing problems of the governance structure of some international institutions,

176 China Daily, China providing loans to Ghana, 2006-06-20. The “One China Policy” refers to the policy or view that the government of Beijing represents China, and that Taiwan is a part of China. In the above case, if the Ghana government publicly opposes this “One China Policy”, the Chinese government is very likely not to provide financial aid to Ghana.


giving special attention to my second key question “why is the IMF not working as expected?”

Following that general introduction of “good governance” in this setting, Woods explains her points by reviewing the history of the governance structure of international institutions. She reveals that for a long time, international institutions performed their operations through their most powerful members. Therefore, even though the principle of equality had been applied – or at least acknowledged – in international institutions in the form of formal rights of representation, Woods claims, “[historically], institutions are effective as long as they reflect the [actual] hierarchy of power among states.” 179

Furthermore, Woods asserts that in order to achieve good governance, an institution must meet the principles of participation, accountability, and fairness. Woods discusses these three core principles of good governance as follows:

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  * Participation. Woods asserts that “participation in decision making and implementation gives people a sense of ownership in a project and a very real stake in its success”. 180 Woods admits that applying the principle of participation is not easy, because on one hand, it may be desirable to empower locals, or the participators under this principle, but on the other hand, the organization needs to control the operations. 181 Thus, the participation principle is often applied in a watered-down form, which only explains the project to key stakeholders instead of involving them in the decision-making process.

179 Id. at 42.
180 Id. at 43.
181 Id.
process. One of the consequences is that borrowers are not committed to project goals. Woods claims that the participation principle requires the key stakeholders – the affected parties – to have access to decision-making process and power in order to acquire a “meaningful stake in the work of the institution”. Mere involvement is not enough for good participation.

- **Accountability.** Woods defines the second principle, accountability, in a narrow sense of the term, as requiring that “institutions inform their members of decisions and also of the grounds on which decisions are taken”. Woods asserts that “accountability requires clarity about for whom or on whose behalf the institution is making and implementing decisions”. In other words, institutions need to make clear who has the power to control the institutions’ operation and to limit its work. Woods goes much further than the common understanding that the organization needs to be responsible to those of its members who were directly affected by the organization’s decision. Instead, international institutions should be called to account by not only their member countries but also NGOs, individuals, and other non-state actors.

Woods gives special attention in this regard to NGOs. She notes that NGOs increasingly claim their right to represent

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182 Woods defines key stakeholders as “individuals and groups who stand to gain or lose from the project”. See *Id.*

183 *Id.* at 44.

184 *Id.* Woods late claims that even this narrowly defined requirement is not yet met in many institutions.

185 *Id.*

186 Non-governmental organizations (NGOs). They are generally created by natural or legal people, not government. Their operations are independently from government, too.
people. Many NGOs argue that the states governments are vehicles for representing people, and cannot be accountable to people. Therefore, they assert that international institutions are accountable to people and should represent people in the world. Woods argues that not all NGOs could represent people because NGOs themselves are “largely unregulated spectrum of organizations.” Indeed, some NGOs are also self-serving and corrupted. Thus, NGOs themselves should also be subjected to the accountability principle and good governance.

- *Fairness*. Woods defines the third principle, fairness, as “how equitable the outcomes of an institution are” and as involving the “general equality and the distribution of power, influence, and resources within an organization.” Woods discussed fairness from two aspects: procedural and substantive. She asserts that procedural fairness requires that “rules and standards be created and enforced in an impartial and predictable way”. As for substantive fairness, she says that it refers to “how equitable the outcomes of an institution are and to [issues of] general equality and the distribution of power, influence, and resources within an organization.”

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187 *Id.* at 45.
188 *Id.*
189 *Id.*
191 *Id.* at 46.
192 *Id.*
Woods then evaluates consensus, the most common decision-making structure, and lists several issues that arise from it. A common assumption is that consensus gives more voice to members with less voting power and ensures a peaceable and constructive atmosphere within institutions. Woods points out that this empowerment cannot ensure that consensus decision-making will contribute unproblematically to good governance. In other words, according to Woods, the consensus approach to decision-making in international institutions does not meet the good governance standard.

To prove this point, Woods further asserts that the consensus decision-making system actually has negative effects on participation and transparency within international organizations. For the participation issue, by analyzing the example of the United Nations Security Council, Woods points out that many key decisions are taken outside formal meetings and only a restricted number of members get to participate as a practical matter in the decision-making process. Thus the consensus decision-making process cannot pass the participation principle test. Another problem is the transparency issue. Woods emphasizes the fact that most informal consensus decision-making processes are unrecorded, thus keeping the reasoning for a decision from other member countries’ scrutiny. Member countries’ positions in the decision-making process are not open to the public, either. The consequence, Woods claims, is that an institution “is not accountable to states who are not party to the informal processes even if they are directly affected by the [institution’s] decisions”. Therefore, Woods believes consensus cannot be consistent with principles of good governance.

In the last part of the article, Woods examines some institutions, including the Organization of Petroleum Exporting Countries (OPEC) and the Global

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193 *Id.* at 50.
Environment Facility (GEF), because they adopt a special voting system\textsuperscript{194}, which divides members into different categories or group. Woods closes by proposing that “[this set of] specific voting requirements can be used in order to bolster perceptions of accountability, transparency, and representation among states within an organization”\textsuperscript{195}. In other words, these could serve as examples of good governance. In Chapter Four, this dissertation will further examine this point and have a detailed elaboration on some similar voting structures.

The principles and standards that Woods sets forth for evaluating international institutions are important to the second key question. The good governance principles and standards provide a model by which this dissertation is able to address the second key question and test whether or not the IMF satisfies the core principles of good governance in Chapter Three. If the IMF does not have good governance, then this provides a justification for this dissertation’s further discussion of what way the IMF should direct its attention in working toward further reform.

\textbf{III. Daniel Bradlow and the Third Key Question: Five Distortions and Three Reform Strategies}

Another article that contributes to the last key question – In what way the IMF should direct its attention in working toward further reform – is a 2001 publication by Daniel D. Bradlow, a Professor of Law and Director of the International Legal Studies Program at American University-Washington College.

\textsuperscript{194} Although Woods does not name this special voting system, it is actually the bloc voting system, which will be discussed in Chapter Four.

\textsuperscript{195} Woods, supra note 178, at 50.
of Law in Washington, D.C.\textsuperscript{196} The article, titled *Stuffing New Wine into Old Bottles: The Troubling Case of the IMF*, was published in a 2001 issue of the Journal of International Banking Regulation.\textsuperscript{197} In the article, Bradlow introduces the claim that the IMF failed in its missions and explores the reasons for those failures.

Bradlow’s main thesis is that over the past few decades, the IMF lost influence over its rich member countries, and this changed the IMF’s relations with (i) its member states, (ii) the citizens of those member states, and (iii) other international organizations. These distorted relationships, Bradlow says, caused the IMF serious problems, and many observers have, as a consequence, questioned the IMF’s legitimacy and its ability to function properly.\textsuperscript{198}

To begin, Bradlow lists five types of distortions, which arise from the IMF’s attempts to “squeeze its new functions and relations into its old structure”.\textsuperscript{199} In other words, the distortions were caused by incongruences between (1) the IMF’s old governance structure and (2) its new functions and relationship with its member states, the citizens of those member states, and other international organizations.\textsuperscript{200} As Bradlow sees the situation, the IMF is experiencing serious problems because of these distortions.

The first distortion involves legal issues surrounding the IMF’s “principle of uniformity”, “principle of impartiality”, and “legal nature of [the IMF] standby

\textsuperscript{196} More recently, Bradlow was appointed as Head of the International Economic Relations and Policy Department at the Reserve Bank of South Africa and also served as a chaired professor at the University of Pretoria.


\textsuperscript{198} Id.

\textsuperscript{199} Id. at 10.

\textsuperscript{200} Id.
These three issues arise from the IMF’s Articles of Agreement and also cause the following additional distortions.

The second distortion involves the IMF’s relations with industrialized countries. Bradlow believes that the fact that the industrialized countries do not need the IMF’s financial resources makes them free from the IMF’s political or economic advice and consultation. Because of this fact, these countries “regained from the IMF the sovereignty that they surrendered to the IMF at the Bretton Woods Conference in 1944.” Bradlow argues that because of this, these countries decided to solve the various financial and monetary issues that have arisen in recent years among themselves, rather than through the IMF. An example would be the G-7 summits, through which the seven most highly industrialized countries made attempts to solve a range of monetary issues by themselves, not through the IMF, which made these industrial countries technically independent from the IMF. In spite of the independence that these countries enjoy from the key responsibilities of IMF membership, these countries nevertheless still control the policy of the IMF through their seats on the Executive Board where of course they can exercise their very large voting powers. Bradlow concludes that “[t]his situation of decision makers having power with accountability to people who do not have to live with the consequences of their actions is a disturbing one.”

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201 Id.

202 Sovereignty, or state sovereignty, is the right of a state to self-government. See Black’s Law Dictionary 1541 (9th ed. 2009). The aspects of sovereignty that the industrialized countries surrendered to the IMF in the Bretton Woods System include: 1). The ability to control the value of the national currency. However, this element of sovereignty was reclaimed by all IMF member countries after the breakdown of the par value system; 2). The ability to manipulate currency values in other ways, and to take other actions that are now prohibited under the Articles of Agreement, Articles IV (Obligations Regarding Exchange Arrangements), and Articles VIII (General Obligations of Members); 3). The ability to keep all national economic information secret, which is disallowed by the Articles of Agreement, Articles IV, Section 3 (Surveillance over exchange arrangements).

203 The G7, or the Group of Seven, is a group consisting of seven industrialized nations (legally represented by their finance ministers): the United States, the U.K., France, Germany, Italy, Canada and Japan. They are also seven of the wealthiest countries by global net wealth.
decisions but without accountability to those most affected by their decisions is a situation ripe with potential for abuse”.

The third distortion that Bradlow explores involves the relations between the IMF and developing countries. Bradlow divides these countries into two groups: emerging markets and less developed countries. These two groups share one thing in common – their economic problems have resulted from the governance of their societies. The IMF has in recent years attempted to address these non-monetary and non-economic problems. The consequence is that “the IMF has now become an active part of the policy making process of its developing country member states”. Therefore, “many people in developing countries already see the IMF more as a political organization that is biased in favor of the rich countries and their interests than as the technically specialized and politically neutral organization that it was intended to be”.

The fourth distortion Bradlow identifies involves the relationships between the IMF and its member states’ citizens. As Bradlow discussed in the third distortion, the IMF has been addressing a range of non-economic problems in developing countries. This makes the IMF “effectively entering into direct interactions with non-state actors and the policies it is helping to make are directly affecting these non-state actors”.

When the IMF was established, its creators assumed that the IMF would not need to directly interact with its member states’ citizens. This is hardly surprising, because the IMF, like any other international organization sharing its

204 Bradlow, supra note 197, at 13.
205 In particular their problems are attributable to their institutional arrangements weaknesses and their technical capacities limitation. Their ability to effectively make and implement policy is limited. See id.
206 Bradlow, supra note 197, at 14.
207 Id.
208 Id. at 16.
fundamental character, has states as members and therefore has its most direct line of accountability running from it to those states – represented by their national governments. Therefore, there is no formal way for the IMF to communicate directly with the citizens of the member states.

Bradlow also believes that the citizens of developing countries cannot hold the IMF or their government accountable for the IMF’s relations with member states. This is because the developing countries and their citizens are unable to effectively limit the discretion exercised by the IMF’s staff and management. In addition, because of the governance problem of their societies, the citizens of the IMF’s developing country member states cannot hold their governments accountable for their relationship with the IMF. Most importantly, Bradlow contends that these problems will jeopardize the IMF’s conduct with the developing countries’ citizens. On the other hand, the citizens of the industrialized member countries also believe that they are indirectly affected by the IMF’s operations. The IMF is using their taxes to support policies and operations that they opposed. Bradlow asserts that “the failure of the IMF to address the causes of these tensions is leading many non-state actors to question the fairness and legitimacy of the IMF.”

The last distortion Bradlow discusses is the relation between the IMF and other international organizations. Bradlow looked back at the original conception for the specialized agencies of the United Nations system. In that system, each agency “would exercise its authority within the limited scope of its

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209 As noted above, Bradlow asserts that the problems of these countries’ societies are caused by weaknesses in their institutional arrangements and technical capacities which limit their ability to effectively make and implement policy. See Id. at 13.

210 This is mainly because in these developing countries, people cannot effectively communicate their views to the government. Bradlow also mentioned a possibility that these people are unlikely to have access to the information needed to make an informal opinion about the government’s conduct of its relation with the IMF. See Id at 17.

211 Id. at 17.
specialization”. However, the agreement between the IMF and the United Nations relieves the IMF of significant responsibilities to the United Nations, and restricts the United Nations from playing a meaningful role in the IMF operations. According to the agreement, the IMF functions as an independent international organization. Bradlow believes that the effective independence of the IMF from the UN has become a problem as the scope of the IMF’s operations has expanded beyond its original monetary function. He contends that in this way the IMF’s operations have interfered with the other specialized international organizations’ jurisdictions.

From the above five distortions, Bradlow observes a number of problems with the IMF, including a problem of the disconnection between power and responsibility, a problem of the IMF’s lack of accountability, and a problem of the interpretation of the Articles of Agreement. Eventually, Bradlow analyzes three popular approaches towards the reform of the IMF. These approaches range from (i) abolition to (ii) policy changes to (iii) structural reform. As for the first approach – that the IMF should be abolished – Bradlow observes that even though “it may be possible to abolish the IMF, it is not possible to eliminate the need for an organization like the IMF”. As for the second approach – to change the policies of the IMF – Bradlow thinks that this would be insufficient because “it is

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212 Id.

213 The agreement between the United Nations and the IMF was intended to define the relationship between the United Nation and the IMF. Under the agreement, the IMF is required to function as “an independent international organization.” The agreement entered into force on November 15, 1947. See Agreement between the United Nations and the International Monetary Fund, 109 U.N.T.S. 340. For a discussion of how the IMF has asserted its independence from the United Nations, See John W. Head, Suspension of Debtor Countries’ Voting Rights in the IMF: An Assessment of the Third Amendment to the IMF Charter, 33 VA. J. INT’L L. 591-646 (1993).

214 According to Bradlow, the IMF is involved in issues such as law reform, poverty alleviation, labor issues, social welfare, environment, and trade liberalization.

215 Bradlow, supra note 197, at 24.
addressing the symptom rather than the real cause”\textsuperscript{216} In other words, if the IMF does not change the whole decision-making structure, the policies it adopts would always be “heavily biased towards the interests of its industrialized member states”\textsuperscript{217}. Lastly, as for the third approach – that is, the bringing of structural reform to the IMF – Bradlow identifies three kinds of reforms – the short-term, medium-term, and long-term reforms – as follows:

- The short-term reforms are those actions that the Managing Director and Board of Directors can take on their own authority, including allowing a member country’s governor to participate in any discussion in the Executive Board that relates to that member country, establishing a permanent and independent evaluation unit in the IMF, establishing an expert panel to review the IMF’s relations with other international organizations, and other initiatives.
- The medium-term reforms are those actions that require the Board of Governors’ approval, including increasing the number of alternate directors, developing the IMF’s detailed operating principles and procedures, renegotiating the relationship agreement between the IMF and the United Nations, etc.
- The long-term reforms are those actions that require ratification by the member countries, including amending the Articles of Agreement to increase the level of basic votes to at least its original proportion in the total votes at the IMF, introducing a

\textsuperscript{216} Id. at 26.
\textsuperscript{217} Id.
qualified voting procedure that requires double majority in votes on policy issues\textsuperscript{218}, etc.

Bradlow eventually reaches the conclusion that “without undertaking this reform program, it is unclear if the IMF will ever be able to effectively make any useful contributions to solving the complex problems of poverty, inequality and inadequate governance which plague developing countries today”.\textsuperscript{219}

As for all these ways to reform the IMF that Bradlow points out, those changes that amount to short-term reforms can only temporarily solve policy problems. They will not be able to completely cure the IMF’s distortions. The medium-term and long-term reforms, on the other hand, involve major issues which require a special majority vote in order to get adopted. Thus, the logic is fairly clear: it is almost impossible to implement these reforms that would be necessary unless steps are first taken to change the IMF’s current decision-making system.

This is surely in part because the United States retains effective veto power over major decisions in the IMF and it will not allow the adoption of any proposal that does not favor what it regards as being in its own national interest.\textsuperscript{220} As I discussed earlier in Chapter One,\textsuperscript{221} for financial and operational issues, such as distribution of general reserve or the methods of evaluation of the SDR, a 70 percent majority vote is required. As for the most important decisions of the IMF, including the admission of new members, increases in quotas,

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\textsuperscript{218} Under this double majority votes, as for votes on policy issues, consumer member countries that use the IMF resources vote separately form the industrialized countries and the votes must obtain a majority of support of both groups.

\textsuperscript{219} Bradlow, supra note 197, at 31.

\textsuperscript{220} Veto power normally refers to the power to unilaterally stop an official action. However, the veto power here does not mean that the United States can veto, or reject, any proposal in the IMF. It refers to the fact that the United States has the ability to prevent adoption of any major substantive proposal, which requires an 85 percent majority support in the IMF.

\textsuperscript{221} See supra text accompanying notes 96, 97, and 98.
\end{flushleft}
allocations of SDRs, and amendments to the IMF’s Articles of Agreement, an 85 percent majority of voting power is required. The United States currently retains a 16.75 percent voting power,\textsuperscript{222} which means that if the United States rejects a substantive proposal, the proposal would never get an 85 percent majority vote.\textsuperscript{223} In other words, the United States has an effective veto power. Therefore, to make any major reform to the IMF, the IMF’s decision-making system needs to be changed first, which would also require United States’ support. A change to the decision-making system and a removal of the United States’ effective veto power are perhaps the preconditions of any major reform to the IMF.

\section*{IV. Views from Other Observers: Criticisms, Defenses, Perspectives, and Proposals}

In addition to Maier, Woods, and Bradlow, of course, many other observers have offered analyses that bear on the IMF’s governance issues. Although the three authors discussed above represent some of the clearest thinking on issues of IMF governance, there are views from other observers that warrant at least some attention. A survey of such observers’ writings reveals the following:

- Columbia University professor Charles Calomiris asserts that the IMF does not qualify as a lender of last resort. He wrote that the

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\textsuperscript{223} Even if all other member countries vote for the proposal, it can only obtain an 83.25 percent voting power, still falling short of the 85 percent requirement.
\end{footnotesize}
IMF bailed out bankrupt banks, not the sound ones. It failed, moreover, to rescue Asia from a financial panic.²²⁴

- Jeffrey D. Sachs, Director of the Earth Institute, Quetelet Professor of Sustainable Development, and Professor of Health Policy and Management at Columbia University, has asserted in his several publications a similar view that we need an international lender of last resort but it is not necessarily the IMF.²²⁵ Sachs states that the IMF does poorly in terms of preventing and handling financial panic.²²⁶ Sachs agrees on the importance of the basic purposes of the IMF and its funding ability to assist many countries in the course of financial crises, but he urges it to undertake a fundamental reform.²²⁷ In another article, Sachs claims that one of the reasons for IMF’s disappointing performance is the fact that the IMF represents not all member countries, but only the member countries who play a significant role in the IMF decision-making process.²²⁸

- Steve Hanke, a professor at Johns Hopkins University, reveals that the IMF has proven to be incapable of diagnosing the acute economic problems in Asian and has failed to prescribe a


²²⁶ Id. “the way that the IMF has intervened, in situations where the panic is just starting, has often inflamed the panic or exacerbated it rather than calmed it.”

²²⁷ Id.

solution. He blames it on the currency exchange system and believes the IMF cannot be reformed. His advice is to abandon the currency exchange system. In a more recent article, Hanke repeated his point that “the IMF’s policies don’t generate prosperity or alleviate poverty” and should be abolished.

- Davison Budhoo, an economist from Grenada, criticizes the IMF and the World Bank for approving and financing activities in the countries of the South that benefit primarily elite classes and transnational corporations. Budhoo suggests three possible lines of approach including abolishing the institutions, controlling the institutions through the creation of a special UN agency, and forcing change on the institutions. Budhoo also proposes several initiatives that can be taken immediately, including creating a conflict resolution body and a “Third World Watchdog Committee”.

229 Steve Hanke, Reforming the IMF: Lessons from Indonesia, 6 CENTRAL BANKING 38, 38-44 (2000).
230 Id. at 40. Hanke said: “emerging market countries must abolish their central banks and national currencies. That would put currency crises in the dust bin. For example, if Indonesia unilaterally adopted the dollar, it would no longer have an exchange rate vis-à-vis the dollar. So how could it have a currency crisis?”
231 Steve H. Hanke, Abolish the IMF, FORBES, (2000). Hanke said “The only cure for the IMF’s ills is to pull the plug on that international bureaucracy.”
234 Hereinafter, Budhoo uses “institutions” to refer to the World Bank and the IMF.
235 Budhoo, supra note 233, at 22.
236 Id.
Of course, there are also observers defending the IMF.

- Lawrence Summers, President Emeritus of Harvard University and former Director of the National Economic Council, has defended the IMF as “among the most effective and cost-efficient means available to advance U.S. priorities worldwide.”²³⁷ In connection with the Asian Financial Crisis erupting in 1997, Summers said that “[r]ecent events have reaffirmed that the IMF is indispensable. We would all of us involved with global finance be breathing less easily this holiday season if the IMF had not taken the steps that it did in response to the crises in Asia and elsewhere”.²³⁸ But even Summers admitted that “to say that the IMF is indispensable is not to say that we can be satisfied with the one we now have”.²³⁹

Some scholars make assessments on the IMF and its reforms:

- John W. Head, Robert W. Wagstaff Distinguished Professor at the University of Kansas, former legal counsel to the IMF, in his book The Future of the Global Economic Organizations: An Evaluation of Criticisms Leveled at the IMF, the Multilateral Development Banks, and the WTO,²⁴⁰ enumerated seven key criticisms leveled at the IMF. The 7 criticisms Head lists are:

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²³⁷ Sarah Anderson, IMF: Reform, Downsize, or Abolish, 5 FOREIGN POLICY IN FOCUS, 32 (2000).
²³⁹ Id.
o 1. Bad Medicine -- the economic and financial policies that the IMF attaches to its financial assistance are faulty.\textsuperscript{241}

o 2. Distributional and Social Injustices -- the IMF policies impose costs, such as enlarging the gap between rich and poor within a society.\textsuperscript{242}

o 3. Trampling of National Sovereignty -- “the IMF conditionality encroaches on a country’s rightful autonomy”.\textsuperscript{243}

o 4. Secrecy and Opaqueness -- the IMF does not disclose its governing policies document (documentary secretiveness), and does not disclose how it conducts business (operational secretiveness).\textsuperscript{244}

o 5. Democracy Deficit -- The IMF is controlled by a handful of rich countries and is an unaccountable autocracy.\textsuperscript{245}

o 6. Mission Creep -- “The IMF has extended its operations into areas in which it has no authority and no competence”.\textsuperscript{246}

o 7. Asymmetry in Obligations -- The rich industrialized countries control the IMF to force the economically less developed countries to adopt economic and financial policies which the rich countries can disregard.\textsuperscript{247}

\textsuperscript{241} Id. at 61.
\textsuperscript{242} Id. at 63.
\textsuperscript{243} Id.
\textsuperscript{244} Id. at 64.
\textsuperscript{245} Id. at 65.
\textsuperscript{246} Id. at 66.
\textsuperscript{247} Id. at 68.
For all seven above criticisms, Head offers an evaluation. He largely dismisses the bad medicine criticism, the trampling of national sovereignty criticism, the secrecy and opaqueness criticism, and the mission creep criticism.\textsuperscript{248} Head generally endorses the other three criticism – distributional and social injustices, democracy deficit, and asymmetry in obligations, but also points out that “there are some elements to most of them that are unconvincing on closer inspection.”\textsuperscript{249}

- Peter Coffey and Robert J. Riley make assessments on the IMF from a European perspective and an American perspective separately in their book \textit{Reform of the International Institutions: The IMF, World Bank and the WTO}.\textsuperscript{250}

Riley first cites several criticisms towards the IMF and then makes a comparison of the official sources (the International Financial Institution Advisory Commission, hereinafter referred to as “the Commission”) and the unofficial sources (other scholars). According to Riley, the Commission recommended a wide range of changes, including “a set of strict lending principles or conditions on the part of borrowing nations”\textsuperscript{251} and a tightened form of banking regulation. The Commission also suggested a greater transparency to the IMF. The United States Treasury concurred in the Commission’s recommendation. However, neither

\textsuperscript{248} Id. at 68.
\textsuperscript{249} Id. at 81.
\textsuperscript{250} \textsc{Peter Coffey} \& \textsc{Robert Riley}, \textit{Reform of the International Institutions: The IMF, World Bank and the WTO} (2006). Peter Coffey is a professor at the University of St. Thomas. Robert Riley is also a professor at the University of St. Thomas.
\textsuperscript{251} Id. at 159.
the United States treasury nor the Commission made comment on the IMF’s governance problem and thus ignored the supremacy of the United States’ voting power.

Riley then lists a number of scholars’ proposals to reform the IMF. Stiglitz, for instance, proposes changes that would extend voting rights to more stakeholders as well as a series of other broad reforms. Eichengreen also proposes a change in the governance structure of the IMF. Addressing his observations to the many critics of the IMF’s decision making process and structure of the Fund, Eichengreen proposes that “the Articles of Agreement be amended to augment the independence of the Executive Board and discourage the directors from taking advice from their own government”, and “International and Financial Committee of the Fund should be endowed with the ability to dismiss the entire board of individual directors by a super-majority vote”.  

Calomiris and Meltzer argue that several reforms will be feasible only if the United States Congress decided that they are needed, noting that “the US government is the largest contributor to IMF and World Bank funding”.  

In his summary at the end of the book, Riley admits that “any recommendations must be politically feasible - it does little good to agitate for change that is simply not possible”.

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252 Id. at 255.
253 Id. at 263.
254 Id. at 270.
• Richard Peet, a professor at Clark University, reviewed the IMF’s policies from 1945 to the present in his book *Unholy Trinity: the IMF, World Bank, and WTO*. Peet specifically analyzes the influence of several financial crises on the IMF in history. He also enumerates the instances of protest rising against the IMF from the mid-1970s and concludes that most protests have happened when people think that an injustice has been done, especially when countries impose policies with repressive social class consequences in the interest of servicing foreign debts.

As for the recent reforms for increasing the voting shares of two-thirds of the IMF member countries, Peet points out that “the total increase for developing countries is only 1.6 percentage points, meaning that rich countries, representing about 15 percent of the membership of the IMF, will continue to wield nearly 60 percent of the voting rights”. Peet even questions whether the IMF, without further reform, could survive in such a changing global governance structure.

• In the book *International Financial Institutions & International Law*, co-edited by Daniel Bradlow and David B. Hunter, the second chapter reviews the IFIs and international law from a Third World perspective. The author of this chapter, B.S. Chimni wrote: “The essential issue is whether developing states, the only subjects of IFI policies and programmes, can have a substantial

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256 *Id.* at 45.

257 B.S. Chimni is a Chairperson of the Centre for International Legal Studies (CILS) at Jawaharlal Nehru University, New Delhi. He is a legal scholar expertise in international law and international trade law.
voice in the decision-making process without compromising the revolving nature of [the funds] in IFIs”\textsuperscript{258}. Chimni further quotes the Charter of Economic Rights and Duties adopted by the United Nations General Assembly in 1974 to prove all states “have the right to participate fully and effectively in the international decision-making process in the solution of world economic, financial and monetary problems”\textsuperscript{259}. He appreciates the reform recommended by the G-20 countries\textsuperscript{260} to shift quota shares to those under-represented countries, but thinks this is not enough since the United States will retain its veto power over major decisions which require an 85 percent majority vote.

The other significant issues Chimni points out are the governance structure and the lack of transparency.\textsuperscript{261} In addition, he remarks that the Third World countries should create a financial institution that serves their needs, based on common benefits between these countries.

Many proposals are directed at the IMF’s Executive Board and voting power.

\textsuperscript{258} B.S. CHIMNI, INTERNATIONAL FINANCIAL INSTITUTIONS AND INTERNATIONAL LAW: A THIRD WORLD PERSPECTIVE, IN INTERNATIONAL FINANCIAL INSTITUTION & INTERNATIONAL LAW 31-32 (Daniel Bradlow & David Hunter eds. 2010).

\textsuperscript{259} Id. at 32.

\textsuperscript{260} G-20, G20, or “Group of 20”, refers to the Group of Twenty Finance Ministers and Central Bank Governors. The G-20, created in 1999, is a forum for international financial cooperation. The G-20 represents the twenty major economies in the world, including: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States of America plus the European Union, which is represented by the President of the European Council and by Head of the European Central Bank. See Id. Also See G-20 website, available at http://www.g20.org/docs/about/about_G20.html.

\textsuperscript{261} CHIMNI, supra note 258 at 42.
• Edwin M. Truman’s book262, Reforming the IMF for the 21st Century, lays out approaches to addressing the interrelated issues of representation on the Executive Board and voting power in the IMF.263 As for reforms of chairs264, Truman proposes consolidating the EU representation into 7 seats exclusively containing EU or potential EU members. In terms of shares, Truman outlines a simpler quota formula “composed of GDP on a purchasing power parity basis and the variability of current payments and capital flows as a basis for quota negotiations”.265 With regard to reallocation of existing quotas, Truman suspects that shifting quotas from European countries to emerging market economies would favor the United States. He states that “[it] is unrealistic because no country has ever agreed to voluntary reduction in the absolute size of its quota. To do so, a sovereign country, in effect, must accept that its absolute importance in the world has declined”.266 Consequently, Truman offers a one-step or two-step process of increasing the total IMF quotas which eventually places the EU and the United States together at hypothetical quota shares totaling 18 percent. He also advocates the use of the G20267 as a forum to negotiate the basic political deal required to accomplish this change.

262 Edwin M. Truman is an American economist specializing in international financial institutions.
263 TRUMAN, supra note 8.
264 See Id. at 9. Truman refers the Executive Board as “chairs” and voting power as “shares”.
265 Id. at 10.
266 Id. at 18.
267 For a list of G-20 countries, see supra note 260.
• Miles Kahler is a Distinguished Professor at the University of California, San Diego. In his article “Internal Governance and IMF Performance,” Kahler mainly focuses on the reform of the IMF Executive Board. By analyzing various IMF structural and procedural issues through the lens of corporate governance, Kahler believes that the issue of the IMF governance relies on the fact that a few large shareholders dominate the institution. Like Truman, his solution to this legitimacy problem is a change of chairs and shares.

To further explain his solution, Kahler first proposes a smaller board consisting of more senior national representatives. Kahler emphasizes the importance of creating a more transparent and clearer guideline of the Executive Board in order to increase the accountability of the IMF. In terms of the process of choosing the IMF Managing Director, Kahler suggests a new practice to have someone outside Europe to be the Managing Director. He also advocates in favor of a greater interaction by the IMF with nongovernmental organizations.

Many other proposals have also been raised in addition to those focusing on reforming voting power and the Executive Board.

• C. Fred Bergsten, an Economist and former Deputy for International Economic Affairs at the National Security Council, proposes replacing American leadership with an effective collective leadership, in his 1994 publication “Managing the World

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Bergsten suggests a G-3 group, instead of the closest approximation G-7, to make up such leadership. Such a G-3 group would include the European Union, Japan, and the United States, which were three economic superpowers at that time. Later in 2005, he stepped further forward in the article “A New Steering Committee for the World Economy”, which features a main theme that the world economy requires a “steering committee”. Based on the fact that “the IMF has always been directed by an outside group, most recently the G-7 finance ministers and central bank governors,” Bergsten concludes that because the G-7 itself lacks credibility, legitimacy, and effectiveness, the IMF therefore failed to maintain a credible, legitimate and effective performance.

To select an appropriate “steering committee”, Bergsten lists three possible candidates: the G-4 (The United States, The European Union, Japan, and China), the G-8 (G-4 countries plus Brazil, India, Russia and South Africa), and the G-20 (G-8 countries plus Argentina, Australia, Canada, France, Germany, Indonesia, Italy, Mexico, Saudi Arabia, South Korea, Turkey, United Kingdom). Bergsten claims that the G-4 would have balance both

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269 Bergsten, supra note 173 at 341.
271 Id. at 280.
272 Bergsten’s standard to select the new steering committee is that the committee must “seek to find the optimum trade-off between legitimacy and efficiency.” Bergstern asserts that “[the steering committee] must be sufficiently representative to encompass all relevant sides of the key issues and thus be acceptable to the many parties that will inevitably remain outside the inner club. But it cannot be so large as to be unwieldy and incapable of action.” See Id. at 286.
The G-4 would have four largest economies in the world, including one developing country which has a population exceeds the combined population of the three other rich countries.\textsuperscript{273} The G-8, on the other hand, would be evenly divided between rich and poor, and between Caucasians and non-Caucasians.\textsuperscript{274} The G-20 is more representative because more countries are added to the group.

In addition, Bergsten advocates a group of the F-16 at the finance minister level.\textsuperscript{275} Bergsten believes that the F-16 would produce a more effective steering committee for the world economy and enhance the legitimacy of the IMF when the steering committee deals with major issues affecting the Fund.

\textsuperscript{273} The G-4 would have four largest economies in the world, including one developing country which has a population exceeds the combined population of the three other rich countries.

\textsuperscript{274} The G-8 would represent all regions except the Middle East and the Southwest Pacific.

\textsuperscript{275} According to Bergsten, the F-16, similar to the G-20, is a group of finance misters from 16 major economies.
CHAPTER THREE  ADDRESSING THE FIRST AND SECOND KEY QUESTIONS: NECESSITY AND GOOD GOVERNANCE

Having introduced the key issues and surveyed existing literature on them, this chapter will provide answers to the first two key questions: “Is the IMF still needed?” and “Why is the IMF not working as expected?”

To answer the first key question – “Is the IMF still needed?” – I will review the origins of international organizations and international financial institutions, with a special emphasis on the IMF and Bretton Woods System. I will then examine the purpose of the IMF, which is stated in Article I of the IMF Articles of Agreement. By reviewing the original grounds for the IMF’s establishment, I conclude that international community still needs the IMF to fulfill its purpose. Furthermore, in the face of the global financial crisis, the IMF is needed more than ever.

To answer the second key question – “Why is the IMF not working as expected?” – I will refer to Woods’ good governance theory and set up tests of participation, accountability and effectiveness for the IMF. I will explain why the IMF fails to pass these three tests and therefore does not have good governance.

I replaced Woods’ third principle – “the fairness principle” with “the effectiveness principle”.

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I will close Chapter Three by explaining why the sorts of reforms already accepted and undertaken by the IMF – for instance, a simple quota reallocation – will not solve the governance problem completely. Therefore, a further reform, which will be shown in Chapter Four, is necessary.

I. The Necessity of the IMF

I have briefly discussed the first key question, which is “Is the IMF still needed?” in Chapter One. Before exploring this question more fully, it is necessary to briefly review the origin of international organizations and international financial institutions. After all, the IMF is only one of many international financial institutions, and these are only one type of international organization.

A. The Overall Origin of International Organizations

According to Black’s Law Dictionary, an international organization is an inter-governmental association of countries, established by and operated according to multilateral treaty, whose purpose is to pursue the common aims of those countries. International organizations, at the risk of oversimplification, can be seen as persons under international law. The character of international organizations as legal entities, with states as members, reflects the historical and political circumstances in which they have evolved. Therefore it is necessary to explore the origin of international organizations more generally – including those with aims and operations that are not merely financial in character. After all, international financial institutions constitute only one branch of the international

277 Black’s Law Dictionary 892 (9th ed. 2009).
278 BARRY CARTER, PHILLIP TRIMBLE & ALLEN WEINER, INTERNATIONAL LAW 478 (5th ed. 2007).
organization family, though it may, from some perspectives, be the most important branch.

There are many theories about the creation of international organizations. For example, Barry Carter, Phillip Trimble, and Allen Weiner assert that “[s]tates create intergovernmental organizations for the purpose of accomplishing generally shared social or economic objectives.”279 Damrosch, Henkin, Pugh, Schachter, and Smit also attribute the massive expansion of international organizations to cooperative purposes.280

I believe there are two main reasons for the multitudinous emergence of international organizations. The first is the development of technology, especially communication. Modern communication technology makes negotiating treaties and agreements between multiple countries easier and more plausible. With the help of the telegraph and telephone, negotiation without meeting became possible. Representatives do not need to travel back and forth to sign a treaty. The second is the need for international cooperation.281 For example, the International Telecommunication Union (ITU), which is widely known as the first international organization, was established in 1865 because the development of the telegraph required multiple countries to cooperate and set up rules they would all follow.282 Indeed, without the cooperation led by an international organization, it would be impractical or impossible for transborder telegraphic messages to be sent and received. In the 20th century, globalization demands a much wider range of

279 Id. at 138.

280 See Lori Damrosch, Louis Henkin, Richard Pugh, Oscar Schachter & Hans Smit, INTERNATIONAL LAW CASES AND MATERIALS xxxiv (4th ed. 2001). “Organizations were formed to address a broad range of ills plaguing the world community.”

281 This is especially true in terms of international financial cooperation. A more detailed discussion about international financial cooperation and International financial institutions will be presented later in this Chapter.

282 For a brief account of ITU, See generally David Bederman, INTERNATIONAL LAW FRAMEWORKS 63 (2010).
cooperation among countries on every level – economic, political, and even military. Taking economic cooperation for instance, with the development of global economics, countries are bound to each other. There is hardly a country in this world that can live by itself. Even the most isolated country in the world, North Korea, must trade with China. Every country, together with its citizens, is connected economically in the world today. Thus, international organizations are needed to lead this kind of cooperation.

Countries have been creating institutional co-operative plans for a long time. In ancient Greece, for example, politically independent entities already signed trade agreement with each other.\(^{283}\) However, in terms of the modern concept of international organizations, most scholars look back to the year 1648, when the Peace of Westphalia was signed.\(^{284}\) The Peace of Westphalia, which consisted of a pair of treaties signed concurrently, solidified the concept of national-states and confirmed the principle of national sovereignty,\(^{285}\) both of which are basic elements for the development of international organizations because such organizations are created by national-states.

Frederic Kirgis, a law professor at Washington and Lee University, quotes a report describing two parallel paths of the evolution of countries’ cooperation in

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\(^{285}\) Id. The concept of national-states itself goes back much earlier than the Peace of Westphalia. For example, many national-states existed before 1648. Also, the principle of sovereignty goes back to Jean Bodin, a French jurist and political philosopher who is best known for his theory of sovereignty, which can be found in his 1576 treatise Les Six Livres de la République ("Six Books of the Republic"). However, the Peace of Westphalia was definitely a milestone, according to Thompson, which solidified the concept of national-states and confirmed the principle of national sovereignty. For a more detailed introduction of sovereignty and Thomas Hobbes’ book Leviathan in which Hobbes used a metaphor to describe the concept of “sovereignty” as an artificial person, and named it “Leviathan”, see Chapter Four.
International Organizations in Their Legal Setting.\textsuperscript{286} These two paths lead to two sources – namely, the conference system and international administrative unions – of present-day international organizations.\textsuperscript{287} Kirgis explains:

The evolution of co-operative forms of State practice took two parallel paths:

(1) An evolution from the stage of ad hoc temporary conferences which are convened for a specific purpose and which come to an end once the subject-matter is agreed upon and embodied in an international agreement, to the stage of permanent international organizations with organs that function permanently and meet periodically.

(2) An evolution from the level of purely administrative unions, each specializing in one kind of international activity of a basically technical character, to that of general international organizations whose scope of activities, though predominantly political, extends to all aspects of international co-operation, i.e., economic, social, technical, etc.\textsuperscript{288}

For centuries, however, nation-states used to be the only actors on the international stage. Most states did not see the necessity – or perhaps even the opportunity, as a legal or conceptual matter – of creating an organization among themselves. After all, doing so would almost surely involve partially surrendering their sovereignty. Thus, the number of international organizations was very limited before the nineteenth century. The principle of national sovereignty was still the overriding principle when the very first international organizations were being founded, so their number and scope was correspondingly narrow. It was only when states advanced from the bilateral treaty and reliance on diplomatic contact to other forms of co-operation in the nineteenth century that the international organization as a form of legal structure appeared in large


\textsuperscript{287} See Kirgis, supra note 283 at 1.

\textsuperscript{288} Id.
numbers. An era of international conferences and multilateral treaties was heralded by the Congress of Vienna in 1814. After that, the League of Nations and the United Nations boarded the stage and acted as more developed peace-keeping institutions, followed by a great number of specialized institutions concerned with technical, economic, and social co-operation.

B. The General Origin of International Financial Institutions

Any examination of the origin of international financial institutions must begin with a consideration of their legal and historical character. Typically, a “financial institution” refers to a business, organization, or other entity that manages money, credit or capital, such as a bank, credit union, savings-and-loan association, securities broker or dealer, pawnbroker, or investment company. The term “international financial institution” is applied to those legal entities that exist at the international level as public intergovernmental international organizations – with states as members – that have financial affairs at the heart of


290 Id. The Congress of Vienna was an assembly in 1814–15 that reorganized Europe after the Napoleonic Wars. See Encyclopedia Britannica, Congress of Vienna, available at http://www.britannica.com/EBchecked/topic/628086/Congress-of-Vienna.

291 The League of Nations was established after World War I. It was the first attempt to create an international organization for cooperation on a worldwide governmental level. The League of Nations was a successful first attempt toward solidifying international cooperation, and it also did an enormous amount of good in establishing rules and practices of international organization law. In addition, the existence of the League of Nations lay a foundation for the establishment of the United Nations in the 1940s. However, because the United States of America never joined the League of Nation, the League of Nation failed to meet its aim of achieving international peace and security. See Ervin P. Hexner, Worldwide International Economic Institutions: A Factual Review, 61 Columbia Law Review 3, 356, 354-383, (1961). See also JOHN W. HEAD, LOSING THE GLOBAL DEVELOPMENT WAR (2008), “The League had failed to meet its aim of ‘achiev[ing] international peace and security.’”

292 BROWNlie, supra note 289 at 647.

293 Black’s Law Dictionary 706 (9th ed. 2009).
their aims and operations. The most prominent international financial institutions, of course, are the World Bank and the IMF, but a range of multilateral institutions – again, with states as members – exist also at the regional level, the most prominent being the regional development banks (Asian Development Bank, European Bank for Reconstruction and Development, African Development Bank, and Inter-American Development Bank).

As a broad definitional matter, an international financial institution might be regarded as one kind of international organization providing financial services to its member countries and the international community, and focusing on financial relations among states. Ervin P. Hexner draws a good picture of the early international financial institutions:

Before the First World War, economic cooperation on an institutional basis had taken place within the framework of over thirty intergovernmental organizations dealing with a wide variety of subjects. But, since these institutions were not concerned with problems of national economic policy and only exceptionally with matters involving conflicts of national interests, they embodied international administration only in a very restricted sense. The first international public agency dealing with economic affairs was the International Danube Commission, established by the Paris Conference in 1856. In 1865, the International Telegraphic Union was established, to be followed nine years later by the Universal Postal Union. Thus cooperation centered mainly on communication, transportation, agricultural research, and the gold standard scheme. Since respect for property rights was basic to the national legal systems, international long-term investments and short-term capital movements were more practicable than today. But trade cooperation machinery on a broader than regional scale did not yet exist.294

It is worth noting that long before the existence of international financial institutions, countries already had signed trade agreements and treaties to regulate

multinational trade activities. These trade agreements had existed for hundreds of years. Countries could not form international financial institutions, because at that time they did not want to surrender national sovereignty. Any issues such as national monetary policy and economic development have long been considered as sovereign privileges. With the predominant national sovereignty principle, countries naturally believed it was their decision how to value the currencies and conduct of other monetary policies. As a result, no international financial organization existed prior to the twentieth century to “monitor and regulate potentially destructive economic behavior” of countries.

Before World War I, major developed countries tied their currencies to gold, so that the exchange rate was fixed. Smaller countries then tied their currencies to one of the major currencies and used those currencies as the reserves. This was called the Gold Standard and it lasted for decades in the late eighteenth century and the early nineteenth century. One definition of the Gold Standard is “[a] monetary system in which currency is convertible into its legal equivalent in gold or gold coin.” Since no international financial organization was set to monitor this currency exchange rate system, the Gold Standard

295 It is especially important to emphasize that a treaty, or treaty regime, is a different concept from an organization. A treaty often has some “superstructure” of operational capacity laid on top of it, but does not have legal personality. On the other hand, an organization, is a legal person – as confirmed by the International Court of Justice in the Reparations Case. See Reparation for Injuries Suffered in the Service of the United Nations, Advisory Opinion of 11 April 1949, General List No. 4 (1948–1949).


297 Id. at 212.

298 Id.

299 Id.

300 Id.

301 Id.

collapsed almost immediately upon the outbreak of World War I.\textsuperscript{303} From that point onward, and during the whole interwar period through 1945, the exchange rates between major currencies fluctuated widely. Because of the absence of an international financial institution, the exchange rates system did not recover until the establishment of the Bretton Woods System.

C. The Specific Origin of the IMF and the Bretton Woods System

At the beginning of World War II, some countries, especially the United States, already had started to discuss regulating possible post-war economic problems\textsuperscript{304}, including the devastation of Europe, the collapse of the global economy, \textsuperscript{305} and trade protectionism.\textsuperscript{306} The problem that most concerned the international financial system was the collapse of the global economy, followed by the worldwide phenomenon of wildly fluctuating exchange rates. Some countries, such as Britain and France, devalued their currencies by manipulating the officially-set exchange rates in order to benefit their economies.\textsuperscript{307}

During World War II, the United States and Great Britain planned to create a system “that would avoid the defects of the interwar period and promote world peace.”\textsuperscript{308} The goal of such a system was to combine the advantage of the classical gold standard (i.e., exchange rate stability) with the advantage of floating

\textsuperscript{303} Beckington, supra note 296, at 212.

\textsuperscript{304} Id. at 217.


\textsuperscript{307} By devaluing the currency, a country will increase its exports and suppress its imports.

\textsuperscript{308} MICHAEL D. BORDO & BARRY EICHENGREEN, A RETROSPECTIVE ON THE BRETTON WOODS SYSTEM: LESSONS FOR INTERNATIONAL MONETARY REFORM 31 (1993).
rates (i.e., to provide insulation from foreign shocks). The British and the Americans had difficulties in the negotiation because Great Britain was expected to be a debtor country after the war while the United States was expected to be a creditor country. After the long lasting political negotiation, the two countries made a compromise and created “The Joint Statement by Experts on the Establishment of an International Monetary Fund,” which served as the working draft at the Bretton Woods conference in 1944. This joint statement also led directly to the Articles of Agreement of the International Monetary Fund.

On July 1, 1944, in Bretton Woods, New Hampshire, 730 delegates from all 44 allied nations attended the United Nations Monetary and Financial Conference, more commonly known as the Bretton Woods Conference, to regulate the after-war international monetary and financial system. At the conference, two agreements, namely, the Articles of Agreement of the International Bank for Reconstruction and Development, and the Articles of Agreement of the International Monetary Fund, also known as the Bretton Woods Agreements, were signed. Based on the agreements, the conference established the International Bank for Reconstruction and Development (IBRD), and the International Monetary Fund (IMF).

The Bretton Woods System was a stable but short-lived system. The rate of inflation in major industrial countries during a short period after World War II was low and the exchange rates among major industrialized countries’ currencies were stable. This was partially because of the Par Value System,

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309 Id. at 5.
310 Id. at 31.
311 Id.
312 Id. at 47.
313 Id. at 5.
314 For a brief account of Par Value System, See supra text accompanying notes 27, 28, and 29.
under which the member countries tied their currency to the U.S. dollar, which was based on the gold standard.\textsuperscript{315} The IMF Articles of Agreement regulated the Par Value System in its original 1944 form, as stated in Article IV, that “[t]he par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.”\textsuperscript{316}

During this short period after World War II, the U.S. dollar was the key currency of the international monetary system and was used as a major unit of accounting for importation and exportation worldwide.\textsuperscript{317} Because of its role as a medium of exchange, the U.S. dollar finally became a major reserve in most countries, though this was not part of the original intention of the IMF’s architects.\textsuperscript{318} The IMF worked well under the Bretton Woods system until the 1970s. Indeed, between 1944 and the 1970s, the future of the international economy seemed bright to many observers.\textsuperscript{319}

Meanwhile, other international financial institutions were created during this period. Most of the major regional multilateral development banks, such as the African Development Bank, the Inter-American Development Bank and the Asian Development Bank, were established in the late 1950s and early 1960s. However, it is worth noting that these organizations were not as significant as the IMF, especially for the developed countries, who mainly co-operated with the


\textsuperscript{316} The IMF Articles of Agreement, Article IV. Par Values Of Currencies, Section 1. Expression of par values. (1944).


\textsuperscript{318} Id.

\textsuperscript{319} See Nathan Lewis, \textit{1971: Bretton Woods and the Four-Decade Trauma of Its Collapse}, “The previous two decades had been a time of prosperity and abundance, not only for the U.S., but countries worldwide including the emerging markets.” \textit{Available at} http://www.forbes.com/2011/07/07/bretton-woods-collapse.html.
IMF. Just as the IMF concluded, “[these regional multilateral development banks] attracted little attention among the public at large, at least in the developed countries, before 1970.”

After the 1970s, one of the most dramatic changes to the Bretton Woods System was the collapse of the Gold Standard system. During the 1960s, the U.S. dollar depreciated greatly, partially because of the United States monetary policy and the Vietnam War. Thus, the whole par value system was under threat. In 1971, the United States ceased to convert the U.S. dollar to gold, which ended the Gold Standard system. Later in the same year, the Group of Ten, the major economies at that time including Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States, signed the Smithsonian Agreement, which devalued the U.S. dollar from 35 dollars per ounce of gold to 38 dollars per ounce. This action soon turned out to be far from sufficient to address the deteriorating circumstances. The U.S. dollar depreciated again, and in 1973 the major developed countries started to adopt the floating exchange rate system. Because the par value system was based on the Gold Standard, these developments also meant the collapse of the par value system.

D. Article I and the Purpose of the IMF

It is true that the IMF had been at the forefront of preventing and managing the financial crisis. However, from the end of the 1990s, many

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320 Id.
321 Id.
322 The Group of Ten, or G-10, refers to the group of countries agreed to participate in the General Arrangements to Borrow (GAB). These were also the major economies in the 1960s. See also The IMF, G-10. Available at http://www.imf.org/external/np/exr/facts/groups.htm#G10.
countries started to rely more on the private sector, rather than the IMF, in ensuring international financial stability.\textsuperscript{324} Indeed, as the G-20\textsuperscript{325} and the Financial Stability Board (FSB)\textsuperscript{326} were created with an aim of achieving global economic stability and sustainable growth – similar to the aim of the IMF – the role of the IMF in the international financial system has been downsized.\textsuperscript{327} Moschella points this out as follows:

“In short, there has been a shift from the view that governing risk in the international financial system requires a concentration of powers in the IMF to the view that global financial stability requires a decentralized system of governance where supervisory and regulatory powers are diffused among states and market actors.”\textsuperscript{328}

This leads to my first key question – “Is the IMF still needed?” My answer to the question would be based on whether or not the IMF’s original ground – its purpose of establishment – does still exist. If the original ground still exists, then the IMF is needed. If the original ground no longer exists, then the IMF is not needed.

The purpose of the IMF is clearly stated in Article I of the IMF Articles of Agreement.\textsuperscript{329} There are six subsections in Article I.

\textsuperscript{324} MANUELA MOSCHELLA, GOVERNING RISK THE IMF AND GLOBAL FINANCIAL CRISES 2 (2010).
\textsuperscript{325} For a brief account of the G-20 and a complete list of G-20 countries, see supra note 260.
\textsuperscript{326} The Financial Stability Board (FSB) is an international organization that aiming at coordinating the work of national financial authorities at the international level. The FSB was created after the 2009 G-20 London summit. The FSB website, available at http://www.financialstabilityboard.org/.
\textsuperscript{327} Id. See also the G-20 website, What is the G20, available at http://www.g20.org/docs/about/about_G20.html “The objectives of the G20 refer to: 1. Policy coordination between its members in order to achieve global economic stability, sustainable growth…”
\textsuperscript{328} MOSCHELLA, supra note 324, at 2.
\textsuperscript{329} The Articles of Agreement Article I was listed in supra text accompanying note 26.
In responding to the purpose stated in Article I, subsection (i) – that is, to promote international monetary cooperation – I argue that we still need the IMF to do so. Of course, many people argue that the monetary system need not to be managed at all and the market itself could work well without outside intervention. This theory was embraced by the first Reagan administration, assuming that each country should put its own house in order. The Reagan administration reduced the scale of intervention, discontinued the policy of building up currency reserves, and cut back its short-term swap arrangements with foreign countries. However, the market did not behave as the administration expected. In September 1985, because of the soaring American trade deficit, the Regan administration reversed its earlier neglect of exchange rate policy and turned to international economic activism. Indeed, we need an international financial institution to compensate for badly behaved markets.

Still, many scholars have been skeptical about the IMF’s leadership in international monetary cooperation, as stated in Chapter One and Two, because the world market has not functioned properly even under the IMF’s leadership.

330 JOHN WILLIAMSON & C. RANDALL HENNING, MANAGING THE MONETARY SYSTEM, MANAGING THE WORLD ECONOMY: FIFTY YEARS AFTER BRETTON WOODS 84 (Peter B. Kenen ed. 1994)
331 In fact, the Group of Five also followed this theory from 1981 to 1985. Id.
333 WILLIAMSON & HENNING, supra note 330 at 84. Williamson and Henning state “[o]ne has to doubt the degree of rationality [embodied] in the process of exchange rate determination unless one is prepared to dismiss some recent econometric results, such as the famous finding by Meese and Rogoff (1983) that a random walk outperformed any of the exchange rate models over time horizons of less than a year, not to mention the overwhelming evidence provided inter alia by Kurgman (1985) and Marris (1985) that the dollar suffered a speculative bubble in the mid-1980s. Our worst fears now appear to have been confirmed by a new paper of Andrew Rose (1994), which finds only weak effects of the monetary fundamentals (and, for that matter, capital mobility) on exchange rate volatility. Limiting exchange rate variations does not shift noise from the exchange market to some other market (like the bond market) as traditional models assumed; rather, it mainly diminishes the noise in the system (Artis and Taylor 1989)”.
335 Id.
Indeed, over the past decades, we have seen a series of financial crises including the Mexican crisis in 1994, the Asian crisis in 1997, the Russian crisis in 1998, the Brazilian crisis in 1999, and the most recent global financial crisis starting in 2008.\(^{336}\) However, the fact that the market does not work well only emphasizes the importance of the IMF’s leadership. Without the IMF’s work on international monetary cooperation, the market could have behaved worse.

In responding to the purpose stated in Article I, subsection (ii) – that is, to facilitate international trade, and to contribute to employment and real income and the development of the productive resources of all member countries of the IMF – I argue that we still need the IMF to fulfill such a purpose. As the WTO Director-General Pascal Lamy pointed out, “We need an international monetary system which facilitates international trade.”\(^{337}\) This is because international trade needs exchange rate stability, and the WTO system cannot solve it all by itself.\(^{338}\) When the exchange rates between major currencies are excessively volatile, the international trading system will be negatively affected.\(^{339}\) The General Agreement on Tariffs and Trade (GATT)\(^{340}\) Article XV Section I requires members to cooperate with the IMF on exchange questions within the jurisdiction of the IMF.\(^{341}\) Such a requirement is still necessary in the world today, as long as excessive exchange rate volatility has a negative impact on international trade.

\(^{336}\) For a brief account of 1990s financial crises, see supra note 34, in Chapter One. The 2008 global financial crisis is also discussed Chapter One, see supra text accompanying note 36.


\(^{338}\) Id.


\(^{340}\) The General Agreement on Tariffs and Trade (GATT) is one of the WTO agreements.

In addition, as stated earlier in this chapter, countries have become more interconnected as the world economy grows. A financial problem of one country can spill over across borders and result in financial problems in the rest of the world, thus making economic and financial stability an international concern. In order to address this concern, the development of the productive resources of all member countries, as stated in subsection (ii), is essential. The IMF can play a significant role in encouraging sustained growth and high living standards in all member countries, and fulfill such a purpose.

Article I, subsection (iii) is concerned with exchange stability. Of course, excessive exchange volatility has a negative impact on international trade. More importantly, this volatility has a negative impact on countries’ economies. During times of excessive high exchange rate volatility, business planning is difficult and this tends to discourage investment, production, and trade.\footnote{JAMES M. BOUGHTON & K. SARWAR LATEEF, FIFTY YEARS AFTER BRETTON WOODS: THE FUTURE OF THE IMF AND THE WORLD BANK 213 (1995).} A country may gain some benefit from import due to the devaluation of its currency, but its economy may still be affected because investors will be reluctant to enter into long-term commitments.\footnote{The overall consequences of intentional currency devaluation is still controversial, but the negative impact is well accepted. See Id.} If the situation gets worse, more countries will be affected and the world economy will also be hurt in the long term due to this excessive exchange volatility.\footnote{“The world has not yet finished paying for the consequences for 15 years’ disregard of the external stability of currencies.” Id.} Therefore, even though the fixed exchange rate system was abandoned in the 1970s, the world still needs a monitor to stabilize exchange stability.

International Monetary Fund to the end that the CONTRACTING PARTIES and the Fund may pursue a co-ordinated policy with regard to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES.”
In responding to the purpose stated in Article I, subsection (iv) – to assist in the establishment of a multilateral system of payments and eliminate foreign exchange restrictions – I argue that the IMF is also still needed to fulfill such a purpose. A multilateral payment system is a set of mechanisms for the transfer of money among economic agents across national borders. This system ensures that what is earned in selling to a country can be used to purchase from another country and is essential to international trade. In addition, this system requires the convertibility of currencies. Foreign exchange restrictions would damage the economic freedom of purchasing and selling in world markets. In order to promote a healthy, growing world market, we still need to eliminate the foreign exchange restrictions and promote a multilateral payment system.

Subsection (v) and (vi) of Article I are concerned with the balance of payments difficulties of member countries. Subsection (v) focuses on making the IMF’s financial resources available to member countries that experience balance of payments difficulties. Subsection (vi) focuses on disequilibrium in the international balance of payments. A balance of payments difficulty is a situation where sufficient financing on affordable terms cannot be obtained to meet international payment obligations. If a balance of payments difficulty intensifies, a country with fixed exchange rates may decide to restrict imports or impose controls on foreign exchange. If the payment problem continues to deteriorate, it often leads to pressure on the currency, a large decline in consumer

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demand and investment by firms, higher unemployment, and lower incomes.\textsuperscript{349} No country is an “island”, and all countries are connected when it comes to economic and financial stability.\textsuperscript{350} The international community needs the IMF to step in when a country faces a balance of payments difficulty, otherwise this problem may spill over across borders. The financial assistance provided by the IMF can give member countries the necessary time and resources they need to correct the balance of payments problems.\textsuperscript{351} The IMF can also help member countries to implement adjustment policies and reforms that will restore conditions for strong and sustainable growth, employment, and social investment.\textsuperscript{352} In the absence of IMF financing, it would be much harder for these member countries to recover from a balance of payments difficulty.

In summary, all purposes stated in the IMF Articles of Agreement – the original ground for the IMF’s establishment – still exist today. In the face of the 2008 global financial crisis, some of the tasks, such as international monetary cooperation and exchange stability, are more important now than ever. The global financial crisis revealed that a single country generally does not have the ability to solve a financial crisis, thus an international monetary institution is needed to promote cooperation. The IMF, if properly reformed, is able to play a critical role in all these tasks.

E. Why the IMF?

To prove the necessity of the IMF, there are three additional points that need to be discussed. First, why do we prefer the IMF, but not another financial institution, to fulfill the purposes stated in the Articles of Agreement? This is because of the IMF’s expertise in stabilizing the international financial system. Among all international financial institutions, the IMF is the only one that has specialized in monitoring transactions between creditor countries and debtor countries. Indeed, when managing the international monetary system, the IMF, as a specific international financial institution, has been most effective. In addition, the IMF has been operating at an international level. Many regional banks and financial organizations have similar roles in their regions, but not at an international level.

Second, some scholars also suggest transferring some of the IMF’s functions to some existing international organization, especially the World Bank. Indeed, as early as 1976, one article of the Economist already questioned the separate existence of the IMF and the World Bank. Professor Dominique Carreau also proposed a merge of the IMF and the World Bank in a 1994 article, basing on the fact that these two institutions have largely the same purpose and share the same areas of activity. However, this theory ignores the fact that the IMF and the World Bank are very distinct despite many similarities. Their

353 See IMF Articles of Agreement, Article I.
354 BERGSTEN, supra note 173 at 347. Bergsten also asserts that “[t]he World Bank has been more effective at promoting economic growth than at social engineering. The GATT has faltered when attempting to move from trade into related areas, such as investment or the environment”, leading the conclusion that functional specificity works best.
355 The Economist, Do We Need an IMF?, 81, (Jan 1976).
purposes are different.\textsuperscript{357} Their sizes and structures are different.\textsuperscript{358} More importantly, their sources of funding and recipients of funding are different.\textsuperscript{359} The World Bank acts like an intermediary between investors and recipients, borrowing from the one and lending to the other, while the IMF has its own resources. These differences make merging the IMF and the World Bank unworkable. Even if the IMF transfers some functions to the World Bank, it would be difficult for the World Bank to execute the IMF’s functions.

Third, why do we want to reform the IMF rather than to create a new international organization? Creating a new international organization would involve tremendous diplomatic disputes and cost a great amount of money. It took years of negotiation to establish the IMF in the 1940s. It would probably take at least an equal amount of time to create a new international financial institution, which would also impose some financial and labor burdens to founding member countries. It is more efficient to make changes to the existing IMF rather than create a whole new organization.

\textbf{II. The IMF’s Lack of Good Governance}

In the above section, I have asserted, and provided support for the assertion, that the IMF is still the key instrument to promote global monetary cooperation, and that its role as a center of multilateral coordination and other tasks should continue largely unchanged. Having addressed the first key question,

\textsuperscript{357} The World Bank’s primary responsibility is financing economic development.

\textsuperscript{358} The IMF has a much smaller size than the World Bank’s. The World Bank has a more complex structure than the IMF. See David D. Driscoll, The IMF and the World Bank How Do They Differ?, the IMF website, \textit{available at} http://www.imf.org/external/pubs/ft/exrp/differ/differ.htm.

\textsuperscript{359} \textit{Id.}
I now turn to the pressure and criticisms on the IMF over the past decades and focus on the governance structure issues of the IMF – the reason that prevent the IMF from enjoying the success that the international community has expected.

A. Criticisms Leveled at the IMF

A pervasive criticism leveled at the IMF is that it has failed in its mission – that is, the purpose stated in the Articles of Agreement. A comment from Daniel D. Bradlow shows the international community’s dissatisfaction with the IMF’s performance. Bradlow states:

Since the collapse of the Bretton Woods system in the mid-1970s the International Monetary Fund (IMF) and the World Bank, have helped the world avoid the horrors of a systemic collapse. However, when we look at the volatility in financial markets, the growing imbalances in the global economy, the increasing income inequality both within and between countries, the facts that nearly half the world’s population lives on less than $2 per day and about 22 percent live on less than $1 per day, and that hundreds of millions of people live without safe sources of running water, shelter, education or health care, it is clear that they are failing in their mandate to reduce poverty, promote and maintain high levels of employment and real income, a stable international monetary system, and shorten the duration and lessen the degree of payments disequilibria.

In addition to the disappointment with the IMF’s lack of success in accomplishing its mission, many scholars have directed criticisms at the IMF concerning its performance, governance, and other aspects. Recall from the

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360 The IMF’s “failure” of missions is still controversial. Recall from the Chapter Two, while many believe that the IMF failed its mission, especially in face of the financial crises in the late 20th century and the 21st century, some scholars also defend for the IMF, purporting that the IMF fulfilled its mission successfully.

discussion in Chapter Two that John W. Head enumerated seven key criticisms leveled at the IMF, namely: 362

- Bad Medicine (the economic and financial policies that the IMF attached to its financial assistance)
- Distributional and Social Injustices
- Trampling of National Sovereignty
- Secrecy and Opaqueness
- Democracy Deficit
- Mission Creep
- Asymmetry in Obligations

Of course, many people do not agree on these criticisms (nor does Head accept most of them himself). 363 Indeed, one must acknowledge the IMF’s success in assisting some member countries. Some recent successful cases include the IMF’s assistance to Poland in 1990 and to Turkey in the 2000s. 364 It is difficult to evaluate the IMF operations – which involve economic, political, and social factors – in this dissertation. However, even those strongest defenders of the IMF must accept the fact that the IMF has attracted a range of criticism from the international community. The IMF was particularly criticized for its response in the fallout of the crises in Mexico 1994, East Asia 1997, Russia 1998 and Brazil 1999. 365 One may argue that the IMF was not required to prevent such crises and hypothetically the IMF has been successful in shortening the duration and

362 HEAD, supra note 240, at 61-110.
363 For a complete evaluation of these criticisms, see HEAD, supra note 240, at 61-110. See supra text accompanying notes 240 for a brief account of Head’s evaluation of the criticisms leveled at the IMF.
lessening the degree of economic crises, according to the purpose stated in paragraph (vi) of Article I.\footnote{See The IMF Articles of Agreement, Article 1, “(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.”} However, at the very least, Article I states that the IMF should “give confidence to members”, which the international community would expect to have.\footnote{See The IMF Articles of Agreement, Article 1, “(v) To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.”} From all the criticisms leveled at the IMF, we clearly see that the international community does not have such confidence.

B. Governance Issues and Good Governance Tests

There are numerous ways to reform the IMF, in order to improve its performance and satisfy the international community’s expectation. In the following sections, I would like to analyze the governance of the IMF, because the governance of the IMF determines its economic contributions and its role within the international financial architecture. The policies and the decisions of the IMF arise from its governance structure – the power relations within the organization and decision-making system. If the governance does not work well, the IMF will likely adopt policies that ineffectively serve its purpose as stated in the Articles of Agreement. In other words, the IMF must address its own, internal problem – if there is one – before solving international financial problems. Therefore, to answer the second key question, I will first determine whether or not the IMF has good governance. Indeed, even Michel Camdessus, the former IMF Managing Director, admitted in one of his speeches that “[g]ood governance is important for countries at all stages of development… Our approach is to concentrate on those
aspects of good governance that are most closely related to our surveillance over macroeconomic policies.”

To determine whether or not the IMF has good governance, I shall rely on some standards of good governance for the IMF. Recall from Chapter Two, I have reviewed Woods’ good governance standard, which contains three core principles of good governance, namely, participation, accountability and fairness. I concur with Woods and believe a similar three principles – participation, accountability and effectiveness – can be used to test whether or not the IMF satisfies the good governance standard.

i. Applying the Participation Principle

The definition of participation Woods offers is “a sense of ownership in a project and a very real stake in its success.” In Chapter One, I have reviewed the three levels of the IMF governance and the quota system for quantifying each member country’s level of participation in the IMF. I assert that in order to obtain a sense of ownership and a real stake in the IMF, member countries must have enough access to the decision-making process. In other words, a member country needs to obtain significant voting power in order to participate.

It is my assessment that the IMF cannot pass the participation test because the developing countries, especially the emerging countries, do not have enough

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370 That is because the IMF has a weighed voting system. See Chapter One, II, B. Of course, voting power is only a part of the “access” to decision-making process. The access contains at least shares (voting power) and chairs (influence in the Board). However, at the risk of greatly oversimplifying, the shares determine the chairs in a fundamental way. Looking at the list of current IMF Executive Directors and Voting Power, the Appendix I, it is easy to conclude that those member countries who have more shares generally possess more chairs.
voting power. Based on the Articles of Agreement, the voting power – which grants a member country’s access to the decision-making process – is reflected on a member country’s quota assignment.\textsuperscript{371} However, the IMF’s basic quota pattern – that developed countries have significantly more quotas than developing countries – has not been fundamentally changed, though the pattern has been challenged and changed slightly over the past decades.\textsuperscript{372}

Because the IMF is created for a public purpose, it must be seen as representing the interests of all its member countries.\textsuperscript{373} Therefore, it is crucial that the IMF’s governance structure reflect today’s world economy. When the IMF was formed in 1944, the United States GDP was approximately half of the world’s GDP and thus the United States had the most economic strength in the world.\textsuperscript{374} Accordingly, the United States had approximately 33 percent of the voting power within the IMF. Such proportion properly reflected the world economy at that time. As of 2011, the United States GDP was 14.99 trillion

\textsuperscript{371} See supra text accompanying notes 48 to 58. Also See the IMF Articles of Agreement, Articles XII, Section 5 (a). “The total votes of each member shall be equal to the sum of its basic votes and its quota-based votes. (i) The basic votes of each member shall be the number of votes that results from the equal distribution among all the members of 5.502 percent of the aggregate sum of the total voting power of all the members, provided that there shall be no fractional basic votes. (ii) The quota-based votes of each member shall be the number of votes that results from the allocation of one vote for each part of its quota equivalent to one hundred thousand special drawing rights.”

\textsuperscript{372} The IMF conducts general quota review on a five-year circle, according to the Articles of Agreement, Article III, Section 2, (a), “The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned.” Also see supra note 63.

\textsuperscript{373} This is because of its double character – the IMF is both an inter-governmental organization and a financial institution. Since the IMF is created for a public purpose and its authority and mandates are based on its Articles of Agreement to which all member countries are party. For this reason, because of such public purpose, the IMF has to take the interest of all member countries into account.

dollars, roughly 21.4 percent of the world total GDP.\textsuperscript{375} On the other hand, the Asian economies’ share of total world GDP was a mere 10 percent in the early 1950s, but had climbed to 25 percent by the second half of the 1990s.\textsuperscript{376} Also, five emerging economic powers, Brazil, Russia, India, China, and South Africa, also known as the BRICS countries,\textsuperscript{377} produced almost 13 trillion U.S. dollars (almost 21 percent of world total GDP) in 2011.\textsuperscript{378} Currently, China alone is the third largest economy in terms of GDP, following the EU and the United States. Many predict that over the next 50 years, the BRICS could become a much larger force in the world economy.\textsuperscript{379} Indeed, the BRICS, with three billion people (43 percent of the world population), spreading on three continents, have influence in their respective regions in particular and in the world.\textsuperscript{380}

In contrast to the BRICS’ economic strength, as of 2013, the five countries only occupied approximately 10 percent of the voting power in the IMF (Brazil 1.38 percent, Russia 2.69 percent, India 1.89 percent, China 3.66 percent,


\textsuperscript{377} The concept of “BRICs” was first created by Goldman Sachs, a global investment banking and securities firm. The original “BRICs” only includes Brazil, Russia, India, and China. Later in 2010, South Africa was also included to the new “BRICS” countries. Goldman Sachs purported that there is growing evidence that the BRICs countries, are leading the recovery to the global financial crisis. See Goldman Sachs Global Economics Commodities and Strategy Research, \textit{BRICs Lead the Global Recovery}, BRICs Monthly, Issue No: 09/05, (2009).

\textsuperscript{378} Brazil’s GDP in 2011 was 2,476,652 million U.S. Dollars, Russian’s GDP in 2011 was 1,857,770 million U.S. Dollars, India’s GDP in 2011 was 1,872,840 million U.S. Dollars, and China’s GDP in 2011 was 7,318,499 million U.S. Dollars. \textit{Also see supra} note 375.

\textsuperscript{379} Jim O’Neill, \textit{Dreaming With BRICs: The Path to 2050}, Global Economics Paper No: 99. “If things go right, in less than 40 years, the BRICs economies together could be larger than the G6 in U.S. dollar terms. By 2025 they could account for over half the size of the G6.”

and South Africa 0.77 percent). Such an insufficiency of voting power is more evident, if we compare the emerging countries with developed countries. Ralph C. Bryant compares five emerging countries (China, India, Korea, Brazil, and Mexico) and five European countries (Italy, the Netherlands, Belgium, Sweden, and Switzerland) in his article “Reform of IMF Quota Shares and Voting Shares: A Missed Opportunity”. Bryant illustrates that the five European countries have a significantly smaller share of world GDP, a slightly greater share of the world total in the gross value of cross-border trade, a significantly smaller share of the variability of trade and capital flows, far smaller foreign-exchange reserves and a dramatically smaller population. However, the five European countries have nearly the same vote share as the five emerging countries.

In addition to the economic power of the global order – that is, the economic strength of individual countries – the realities of global commerce and finance have changed dramatically, too. For example, financial flows are globally

381 Note that Bryant uses a different “five emerging countries” from the “BRICS countries”.
383 The five European countries’ share of world total GDP is 8.1 percent, and the five emerging countries’ share of world total GDP is 11.9 percent.
384 The five European countries’ share of cross-border trade is 13.1 percent. The five emerging countries’ share is 11.8 percent. See Id.
385 The five European countries’ share of the variability of trade and capital flows is 7.5 percent. The five emerging countries’ share is 10.6 percent. See Id. at 5.
386 The five European countries’ share of the world total of reported foreign-exchange reserves held by their central banks and governments is 3.1 percent. The five emerging countries’ share is 31.9 percent. See Id.
387 The five European countries have 1.6 percent of the world total population. The five emerging countries have 43.1 percent of the world total population.
388 The data Bryant provided is the five European countries have 10.4 percent of total votes and the five emerging countries have 8.2 percent. However, as of March 2013, the data changed to 9.48 percent versus 9.77 percent. (Italy’s percent of total votes is 3.16 percent, Netherlands is 2.08 percent, Belgium is 1.86 percent, Sweden is 0.98 percent, Switzerland is 1.40 percent, China is 3.66 percent, India is 1.89 percent, Brazil is 1.38 percent, Korea is 1.37 percent, Mexico is 1.47 percent.)
liberalized now.\(^{389}\) Even former center-controlled economies in communist countries are now mostly determined by market forces.\(^{390}\) All these changes suggest a different international economic order.\(^{391}\)

In summary, the world economic order has greatly changed since the day the IMF was established. The voting powers of many developing countries, especially those emerging market countries, do not reflect their economic strength. The current quota assignment of the IMF does not reflect the world economic pattern.\(^{392}\) Thus, the developing countries are not granted enough access – via voting power – to the decision-making process. I conclude that the IMF has failed the participation test.

ii. Applying the Accountability Principle

According to Woods, the principle of accountability, in the narrow sense of the term, requires that “institutions inform their members of decisions and also of the grounds on which decisions are taken.”\(^{393}\) A further, deeper meaning of the accountability principle would require “[a] clarity about for whom or on whose behalf the institution is making and implementing decisions.”\(^{394}\) Woods specially

\(^{389}\) BERGSTEN, supra note 173 at 342.

\(^{390}\) Id.

\(^{391}\) Id.

\(^{392}\) One commonly recognized principle for determining the relative power and voice of member countries of IMF, an international institution based on quota system, is that “surrender of decision making power to the IMF involves surrender of sovereignty and quota shares must give primacy to economic variable(s) that reflect this sacrifice. This is essential for making and evenhandedly applying rules to all members, rich and poor, large and small.” See Arvind Virmani, Global Economic Governance: IMF Quota Reform, IMF Working Paper WP/11/208, 1, (2011).

\(^{393}\) Woods, supra note 178, at 44.

\(^{394}\) Id.
points out that any organization simply run “by the most powerful” and “for the most powerful” cannot satisfy the accountability principle.\textsuperscript{395}

The narrow sense of accountability requires transparency in decision-making process, yet the IMF had been criticized for its secrecy and opaqueness.\textsuperscript{396} The IMF reaches most of its decisions based on consensus, which involves many negotiations and informal meetings.\textsuperscript{397} For a long time, most of these negotiations were behind the scenes, and were not officially recorded.\textsuperscript{398} This resulted in the whole negotiation process being opaque, and leaves room for member countries to make self-serving deals. Sometimes, these informal meetings have only small groups of countries participating. Countries that are affected by the decisions of these informal meetings are often excluded.\textsuperscript{399} Nevertheless, these informal meetings are closed, excluding the public to observe the IMF’s action.

However, over the past ten years, the IMF has started to provide more information on its operations.\textsuperscript{400} In 1999, the Interim Committee of the Board of Governors of the IMF has adopted its “Code of Good Practices on Transparency in Monetary and Financial Policies.”\textsuperscript{401} As a guide to the implementation of this code, in July 2000, the IMF Executive Board has approved “Supporting Document to the Code of Good Practices on Transparency in Monetary and Financial Policies”, which “provides a fuller description of each of the transparency practices of the Code, the rationale of the practices in the context of

\textsuperscript{395} Id.

\textsuperscript{396} HEAD, supra note 240, at 76.

\textsuperscript{397} Consensus is one type of decision-making systems. It only requires the absence of any formal objection. A more detailed discussion will be provided in Chapter Four.


\textsuperscript{399} Id. at 52.

\textsuperscript{400} HEAD, supra note 240, at 76.

\textsuperscript{401} The Code of Good Practices on Transparency in Monetary and Financial Policies was adopted by the Interim Committee on September 26, 1999.
transparency, examples of how the transparency practices are applied by central banks and financial agencies (including alternative ways to achieve the objective), and some considerations in implementation.” 402 These documents were created for public disclosure and transparency practices designed to strengthen the international monetary and financial system. 403 Under this guidance, the IMF started to “improve transparency of the objectives and operational processes governing monetary and financial policies.” 404 Indeed, the IMF had significantly published information on Executive Board action between January 2001 and March 2003, including over 80 percent of all Article IV consultations. 405 Information such as “each member’s financial position with the IMF”, “quarterly IMF financial statements” are also provided by the IMF on its website. 406 It is possible to access most information about the IMF’s operations. Therefore, the IMF meets the requirement of accountability principle in a narrow sense.

However, in terms of the deeper meaning of the accountability principle, the IMF does not meet this requirement. This is because its industrialized member countries control the IMF’s policies without bearing any consequence of these policies, yet, the IMF’s developing member countries often are affected by those policies without much say in the policy-making process.

The IMF was designed to provide loans to all member countries when it was created. 407 Article I of the IMF’s Articles of Agreement states that the purpose

402 The supporting document was approved by the Executive Board on July 24, 2000.
404 Id.
405 HEAD, supra note 240, at 77. According to Head, The information also includes “the Letters of Intents for 93 percent of countries’ requests for (or review of) the use of IMF resources”, and “57 percent of stand-alone reports on IMF-supported programs.”
407 See the IMF Articles of Agreement, Article I.
of lending by the IMF is “...to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.”

Therefore, any member country, whether a developed county or a developing country, should be able to seek financial help from the IMF if it has a balance of payments need.

About four of five member countries have used the IMF’s financial resources at least once. More than half of the IMF’s lending went to developed countries in the first two decades after the IMF’s establishment. However, this situation dramatically changed over time. Since the 1970s, most developed countries ceased to receive the IMF’s financial resources. Currently almost all borrower countries are developing countries.

The direct consequence of this changed situation is that those developed countries, which are not using the IMF’s financial resources, are free from the IMF’s advice and conditions. However, those most wealthy and independent countries are still the dominant force within the IMF’s decision-making process, even though they have effectively escaped from the IMF's control. These countries are able to manipulate the IMF’s decisions and place influence over the poor and least developed countries.

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408 See the IMF, Lending by the IMF, available at http://www.imf.org/external/about/lending.htm#conditions.
409 Id.
410 Id.
411 Id.
413 Id.
In summary, under the IMF’s current governance structure, some member
countries make the decisions but do not need to be bound to them – because they
do not need the financial assistance, and thus do not need to deal with the
conditions attached to the IMF’s loan. On the contrary, other countries must
comply with the decisions – because they need the financial resources of the IMF
– but do not have say in the decision-making process. Therefore, the IMF’s
decisions are made based on the interests of a small group of developed countries,
but the consequences of such decisions are placed on the developing countries.
Thus, I conclude that the IMF does not pass the accountability test.

iii. Applying the Effectiveness Principle

The third principle of good governance I will discuss is effectiveness.
Woods sets “fairness” as her third principle of good governance. However, if an
international financial institution has met the participation principle and the
accountability principle, such governance would certainly ensure the fairness of
that institution. Therefore, instead of fairness, I view effective performance as a
more essential assessment of international financial institutions, such as the IMF.
Indeed, “the rules and decision-making processes of international economic
institutions do not exist merely as ends in themselves. Their aim is to help solve
collective problems and substantially improve the general welfare, especially
compared to what individual states can accomplish alone.”

An international
financial institution needs to effectively operate to fulfill its purposes – that is to
manage financial issues on the international level.

I believe there are two main factors of the effectiveness principle. The first
one is efficiency. Efficiency might not have been a big problem a century ago,

when countries did not have much interaction and the global economy was not integrated. Even in some rare cases that an international organization took months or even years to make a decision, there would not be severe negative consequences. Most countries were self-sufficient without interaction from international organizations.

In the modern world, the global economy has been closely integrated. The United States subprime mortgage crisis caused a depression of both the United States and European economies. When the United States was attacked in September 2001, the whole world’s stock market dramatically declined in a short time. In other words, no country can be immune from the effects of globalization. Under this situation, the international financial institutions are facing a dynamic and fast-paced environment. They must analyze the uncertain economic issues and handle various financial regulations in a short time, if not immediately. In a nutshell, the modern economic situation requires international financial institutions to be efficient. They need to be able to promptly react to any possible market crisis and urgent financial aid request.

In terms of the IMF, no evidence shows that the current weighted voting system has prevented the IMF from operating efficiently in decision-making progress. However, many point out that the IMF decision-making process is “a process of deliberate and thorough consideration by the Executive Board, the management, and the staff of all the aspects of an issue in order to arrive at decisions that all, or nearly all, can support.”416 Because the Executive Board does not have enough resources to challenge the staff’s view, “it is time consuming for the Board to absorb (and react to) all the information provided by staff… and for

416 HOUTVEN, supra note 60, at 67.
the staff, it is time consuming because it results in the production of activities that may be carried out largely as a formality.\textsuperscript{417} I do not believe the IMF completely fails the efficiency test. However, the IMF should be able to operate more efficiently if the decision-making system were fundamentally changed, which will be discussed in the later sections.

The second factor is crisis management and prevention. Of course, responding to financial crises is only one of the missions of the IMF. But all the purposes stated in Article I of the Articles of Agreement – to promote international monetary cooperation and exchange stability, to facilitate the expansion and balanced growth of international trade, to assist in the establishment of a multilateral system of payments, and to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members – are meant to maintain a stable international financial system. Given the enormous damage a financial crisis can do to the international financial system, if the IMF does not prevent and manage financial crises, then none of the purposes can be successfully fulfilled.

As stated previously, the IMF has been criticized harshly for its crisis management and prevention.\textsuperscript{418} It is difficult to estimate the outcome effectiveness of the IMF’s relief programs for those countries suffering from financial crisis.\textsuperscript{419} However, by looking at the IMF’s response to the previous financial crises, I conclude that the international community is not satisfied with the result. In the Asian Financial Crisis, the IMF attempted to rescue the affected

\textsuperscript{417} Carlo Cottarelli, \textit{Efficiency and Legitimacy: Trade-Offs in IMF Governance}, The IMF Working Paper WP/05/107, 12, (2005). Cottarelli points out that “about two-thirds of the Board’s time is spent on country matters rather than in setting policy guidelines or in monitoring their overall implementation”.

\textsuperscript{418} Gnath, Mildner & Schmucker, supra note 415, at 22.

\textsuperscript{419} Id. at 23.
countries’ economies with huge loans, but did not succeed as expected. The fiscal austerity programs that the IMF asked the affected countries to implement did not help to recover the economy but caused an excessive economic contraction and a collapse in tax revenues, thus prolonging the financial crisis. Another example is the IMF’s financial aid package for Greece. Even though the IMF took action to rescue the Greek economy, the IMF could not prevent Greece from “falling deeper and deeper into a vortex of weak growth and rising debt.” Indeed, even though we cannot conclude that the IMF failed to manage the financial crisis at all, it is obvious that the IMF does not satisfy the international community’s expectations.

The financial crises exposed the truth that the IMF’s effort to prevent financial crises is, at the very least, inadequate. For example, the IMF has long been supporting Argentina’s fiscal and exchange policies. In fact, Argentina was regarded as the “model student” of the IMF throughout the 1990s. But beginning in 1999, Argentina had a difficult economy due to many reasons such as its fiscal and exchange policies. According to another resource, in the 2000s, the IMF also failed to persuade its member countries to “seek multilateral

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421 Id.
422 Greek financial crisis was one of the European sovereign-debt crises in the late 2000’s. Starting from 2009, investors were concerned about that Greece could not meet its debt obligations. In responding to the crisis, the IMF has offered a bailed out loan with conditions for Greece in 2010.
423 Gnath, Mildner & Schmucker, supra note 415, at 23.
424 Id. at 24.
425 Michael Mussa, Argentina and the Fund: From Triumph to Tragedy 1 (2002). Mussa said that “[t]he Fund supported Argentina’s successful efforts to maintain its exchange rate peg in that crisis”. Id.
427 Michael Mussa, Argentina and the Fund: From Triumph to Tragedy 1 (2002).
solutions rather than stockpiling currency reserves of their own,” which increased
the global macroeconomic imbalance.\textsuperscript{428} Of course, the IMF alone should not be
held responsible for failing to prevent financial crisis. Currently the IMF has
attempted to prevent financial crises via its surveillance activities.\textsuperscript{429} Thus, the
IMF has to rely on its member countries’ willingness to implement IMF
recommendations regarding their financial and monetary policies. Yet, many
member countries were hesitant to do so, because they did not agree with the IMF
policies, and believe these policies were made in the interests of a handful of
countries who control the IMF.\textsuperscript{430} Therefore, some member countries started to
turn to alternative resources in recent years. For example, in 2009, the presidents
of Argentina, Brazil, Paraguay, Uruguay, Ecuador, Bolivia and Venezuela, signed
an agreement to establish the Bank of the South with an initial capital of 20
billion U.S. dollars.\textsuperscript{431} The creation of the Bank of the South clearly showed these
countries’ disapproval of the IMF.

It is hard to determine whether or not the IMF fails the effectiveness test.
But one thing is certain: the IMF needs to improve its effectiveness in the face of
the current global financial crisis.

\textbf{III. Attempted Reforms and Why Further Steps Are Needed}

As previously discussed, based on the principle of participation,
accountability and effectiveness, I conclude that the IMF does not have good

\textsuperscript{428} Gnath, Mildner & Schmucker, \textit{supra} note 415, at 24.

\textsuperscript{429} \textit{Id.} at 23.

\textsuperscript{430} As a result from the fact that the IMF does not meet the participation and accountability
principle.

\textsuperscript{431} The Macro Press, \textit{South American leaders sign agreement creating South Bank}, available at
governance. Indeed, many interested groups have also independently sought in their own way to examine the IMF. For instance, in June 1994, the Center of Concern, an NGO in Washington, held a forum that “aimed at reforming the Bretton Woods institutions according to ‘the principles of participation, transparency, accountability, and subsidiarity.” The Bretton Woods Commission also issued reports about the IMF governance, recommending industrialized countries to “move now to achieve better coordination of economic policies and conditions”.

As a matter of fact, that the IMF itself has long realized this issue and has responded in some ways to it. For example, in September 1994, the IMF held a conference in Spain to discuss numerous challenges it had faced, including the governance issue. In the 2000s, as I briefly introduced in Chapter One, the IMF started to conduct governance reforms by amending its Articles of Agreement. The 2008 reform focused on quotas and basic votes, including significantly shifting the emerging market countries’ quota, tripling the basic votes and setting a fixed ratio between the basic votes and the total votes. The 2010 reform includes a further shift of voting powers to emerging market countries, a reform of the Executive Board, and an increase of the financial resources of the IMF.

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433 Id. at 5.

434 The Bretton Woods Commission is an organization created in 1983, which “works to demonstrate the value of international economic cooperation and to foster strong, effective Bretton Woods institutions as forces for global well-being”. The Bretton Woods Commission website, About the Bretton Woods Committee, available at http://www.brettonwoods.org/page/about-the-bretton-woods-committee.


436 Id.


is my opinion that both reforms are good starts to address the governance issues of the IMF. However, even with the reforms, the IMF did not completely solve its governance issues because of the following reasons.

First, the IMF did not fundamentally change the imbalance of representation and thus still does not meet the participation principle and the accountability principle. Even after the reforms, the basic pattern – that developed countries have significantly more quotas than developing countries – does not change. Under the current quota formula, the least developed countries would never have enough voting power to actively participate in the decision-making process of the IMF. The IMF is not controlled by the majority of its member countries, but rather just a small group of developed countries. For the IMF, the reforms are incomplete.

Second, it would be difficult for the IMF to further transfer quotas from developed countries. The reallocation of quotas is a zero sum game. In order to give emerging market countries more quotas, some countries must give up part of their quotas and lose some voting powers. The reallocation of quotas requires 85 percent of voting powers and it is difficult to persuade those member countries who have most voting power to do so. Indeed, almost all countries prefer to have as much quota as possible because of the essential roles of quota. Therefore, countries may have different views on quota assignment. Such conflict will be difficult to negotiate. In addition, since the economy of the world is changing rapidly, it is difficult for the IMF to distribute the quota in a way that perfectly

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439 Quota has three essential aspects for member countries. See supra text accompanying notes 48 to 58.

440 A report to the United States Congress lists argument against the reforms, and questions whether the emerging economies countries would be responsible stakeholders. See REBECCA NELSON & MARTIN WEISS, IMF REFORMS: ISSUES FOR CONGRESS, 8 (2013).
represents the world economy. For the IMF, the reforms will be hard to complete.

Third, as long as the United States retains its effective veto power, it is difficult to persuade the international community that the IMF is an organization for all member countries. While some international financial institutions specifically state no veto power should be retained by any member, in the IMF, the United States still has effective veto power in all important decisions. The United States could easily block any major vote or proposal based on its own interests, because of its dominant quotas. A report to U.S. Congress admits that “[even after the reforms], [t]he share of the United States’ voting power at the IMF would fall slightly, but the United States would still maintain its unique veto power over major policy decisions.”

Fourth, even if the IMF makes a complete change in vote shares which gives emerging countries tremendous voting power and deprives the veto power of the United States, this would not change the fact that the IMF is controlled by a handful of countries. This would only ensure the IMF not be subject to the overwhelming pressure of the United States and those developed countries. However, the IMF might still receive new pressure from emerging countries such

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441 Of course, the IMF conducts general quota review every five years. But it may not be able to response promptly to a rapid changing world economy.

442 The principle of accountability requires an organization as a whole belongs to every member. Article I of the IMF Articles of Agreement also implies that the IMF is an organization of all members.

443 For example, the African Development Bank states that “[n]o member country, or a group of countries has veto power,” see African Development Bank Group website, Board of Governors, available at http://www.afdb.org/en/about-us/structure/board-of-governors/.

444 See NELSON & WEISS, supra note 440, at 8.


446 Id.
as the BRICS countries.\textsuperscript{447} In other word, a simple vote share reallocation would only change who controls the IMF, but not the fact that the IMF is controlled by some countries. Indeed, by doing so, it is like pouring new wine into old wineskins. Yet, we all know that “new wine must be poured into new wineskins.”\textsuperscript{448}

Fifth, the basic votes were tripled, but that does not on its own constitute enough of a change. The IMF’s creators used basic votes to protect the least developed countries’ interests. But as time went by, the 250 basic votes got diluted and become almost worthless. The 2008 reform set the basic votes to a fixed ratio at 5.502 percent of the aggregate sum of the total voting power. However, it is still below the original 11.3 percent of the total voting power when the basic votes were created in 1944.\textsuperscript{449} It is my assessment that the basic vote should at least be restored to the original ratio in order to play the role that the IMF creators expected.

Sixth, the reforms do not involve other aspects of the IMF. For example, unlike the quotas, the Executive Board’s structure has not been reformed yet. Many believe that the industrialized countries, especially the European countries, are overrepresented in the Executive Board.\textsuperscript{450} Although the IMF is supposed to reform the Executive Board eventually, we have not seen the change yet.

\textsuperscript{447} \textit{Id.}

\textsuperscript{448} Indeed, this quote from the bible (Luke 5:38, NIV) indicates that only a complete change of the structure could make a fundamental change.

\textsuperscript{449} When the IMF was established, the 250 basic votes equal 11.3 percent of the total voting power that time.

\textsuperscript{450} See Edwin Truman, \textit{Rearranging IMF Chairs and Shares: The Sine Qua Non of IMF Reform}, Reforming the IMF for the 21st Century, Peterson Institute, 201, (2006). Truman states: “At present the 25 EU countries appoint or play a major role in the election of 10 of the 24 IMF executive directors, 42 percent of the Executive Board.4 In connection with these 10 seats, the EU currently supplies 6 executive directors and 8 alternate executive directors, 29 percent of the combined total. In 5 cases they supply both. The Executive Board traditionally reaches decisions via consensus rather than via formal voting. In this context, the European voices are too many; as
I do not agree that such a reform package can restore the IMF’s good governance. The reforms alleviate the problems of representation and accountability to some extent, but could not fundamentally solve these problems. These problems are caused by its structures. Thus, in order to ultimately address the problems, the IMF needs a carefully constructed voting system, which will enable the IMF to meet the participation, accountability and effectiveness principles of good governance.

a consequence their views tend to receive disproportionate weight in the consensus and they tend to have disproportionate influence with the IMF staff.”
CHAPTER FOUR ADDRESSING THE THIRD KEY QUESTION: THE BLOC VOTING SYSTEM

In the previous chapters, I explored my first key question, “Is the IMF still needed?”, by examining the purposes of the IMF, as stated in Article I of the IMF Articles of Agreement. I conclude that all those purposes still need to be fulfilled. The IMF is needed more than ever in the face of the global financial crisis. I also explored my second key question, “Why is the IMF not working as expected?”, by referring to Woods’ good governance theory and setting up the tests of participation, accountability and effectiveness for the IMF. I concluded on that analysis that the IMF fails to pass these tests and therefore does not have good governance – or, to express it in less black-and-white terms, does not have good governance to permit it to rise to the expectations that the international community has for it and the challenges that the modern world presents.

Having explained why the sorts of reforms already accepted and undertaken by the IMF will not and cannot address the governance problem adequately, I will turn in this chapter to my third key question, “In what ways should the IMF reform?”, with an emphasis on the decision-making system of the IMF. To do so, I will first examine the basis of decision-making power of international organizations and the current decision-making process of the IMF. I will then review major decision-making systems employed in several
international organizations and conclude that the bloc voting system will work best for the IMF. I will propose to the IMF to use two sets of voting blocs—econ blocs and regional blocs—for the bloc voting. In the last part of this chapter, I offer a proposed amendment of the Articles of Agreement regarding an appropriate bloc voting system, as well as three hypothetical cases, to explain how the IMF would operate under the bloc voting system.

I. A Fundamental Reform of the IMF’s Decision-Making System

The first part of the answer to my third key question, “in what ways should the IMF reform?”, is this: by undertaking a fundamental reform to the IMF’s decision-making system. This is because the IMF does not have good governance, which has prevented the IMF from accomplishing the success that the international community has expected.

The IMF has realized this problem and started to respond. As discussed in Chapter Three, the reforms that the IMF conducted in the 2000s were good “first steps” toward addressing the good governance issue, but those initiatives could not completely solve it. Even after full implementation of the reforms, the developed countries would still control the IMF based on the current weighted voting system. Indeed, a simple quota transfer could not restore good governance to the IMF. ⁴⁵¹ There are still many steps that need to be taken. ⁴⁵²

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⁴⁵¹ Of course, the reform package contains many other aspects in addition to the quota transfer. But the quota transfer is no doubt the most significant one.

⁴⁵² For example, the Executive Board also has a tremendous influence on the decision-making process. However, the IMF has not yet redistributed chairs of the Executive Board.
A number of legal scholars have proposed many ways to reform the IMF’s governance structure. As an example, Daniel Bradlow lists dozens of possible short-term, medium-term and long-term reforms in his 2006 article on the change role of the IMF. However, most of the reforms, especially the medium-term and long-term reforms, involve changes of the fundamental structure of the IMF. According to the Articles of Agreement, any proposal involving major issues requires a special majority vote. Thus, it is very difficult to implement these reforms under the IMF’s current decision-making system. This is because the United States retains effective veto powers in the IMF and it seems highly unlikely that the United States would support any proposal that it thinks does not favor its interest. In other words, to make any fundamental reform to the IMF, the decision-making system needs to be changed first. It is the precondition of any other reforms to the IMF. However, this would require the United States’ consent as well.

Indeed, as detailed earlier, the governance of the IMF determines its economic contributions and its role within the international financial architecture. The policies and the decisions of the IMF arise from its governance structure – the power relations within the organization and decision-making system. If the governance does not work well, the IMF will likely adopt policies that cannot effectively serve its purpose as stated in the Articles of Agreement. In other words, because the IMF’s problems are caused by its structures, in order to ultimately address the problems, the IMF needs a carefully constructed voting system, which will enable the IMF to meet the participation, accountability and effectiveness principles of good governance.

453 Bradlow, supra note 1, at 39.
Nevertheless, fundamental structures, such as the decision-making system, are the keys to overall performance. If the decision-making system of the IMF could be changed, it would promote other reforms, too. Under a new decision-making system, the voice and voting power of the IMF member countries could be redistributed and rebalanced. The emerging and developing countries could have more incentive and ability to promote further reforms to the IMF.

Based on the discussion so far, I propose to fundamentally change the IMF’s current weighted voting system. In order to do so, I need to review the decision-making power of international organizations, and the decision-making process in the IMF. After all, it is necessary to look at the sources of the international organizations’ decision-making authority and the IMF’s application of that authority in its current decision-making system, before discussing a reform proposal for the IMF.

II. The Decision-Making Power of International Organizations

The decision-making power of international organizations – in other words, the legal authority that makes nation states be bound to international organizations’ decisions – comes from international law. During the development of international law, from the 18th century, as Jeremy Bentham\textsuperscript{454} and John Austin\textsuperscript{455} developed legal positivism\textsuperscript{456}, the orthodox view of this decision-

\textsuperscript{454} Jeremy Bentham (1748 – 1832) was a British philosopher and jurist. Bentham opposed the notion of natural law (according to Black’s Law Dictionary, nature law is “a philosophical system of legal and moral principles purportedly deriving from a universalized conception of human nature or divine justice rather than from legislative or judicial action.”) and developed legal positivism. Bentham is best known as the founder of modern utilitarianism.

\textsuperscript{455} John Austin (1790 – 1859) was a British jurist. Austin is best known for his work developing the theory of legal positivism.

\textsuperscript{456} Legal positivism asserts that the existence and content of law depends on social facts and not on its merits. The English jurist John Austin (1790-1859) formulated it thus: “The existence of law
making power has been that “the only legitimate source for an international right or obligation is the express or tacit consent of each state to which it applies.”

We can see this positivist doctrine expression in Article 38(1) of the Statute of the International Court of Justice – which lists the sources of international law as follows:

Article 38 (1). “The Court, whose function is to decide in accordance with international law such disputes as are submitted to it, shall apply:

a. international conventions, whether general or particular, establishing rules expressly recognized by the contesting states;

b. international custom, as evidence of a general practice accepted as law;

c. the general principles of law recognized by civilized nations;

d. subject to the provisions of Article 59, judicial decisions and the teachings of the most highly qualified publicists of the various nations, as subsidiary means for the determination of rules of law.”

Article 38(1) shows that international conventions and international customs are the two most important sources in international law. Through international conventions – normally in the form of treaties – nation states

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457 Frederic Kirgis Jr., International Organizations in Their Legal Setting 274 (2nd ed. 1993).

458 Id. The International Court of Justice was established by the Charter of the United Nations as the principal judicial organ of the United Nations. See Statute of the International Court of Justice, Article 1.

459 Statute of the International Court of Justice, Article 59, “The decision of the Court has no binding force except between the parties and in respect of that particular case.” Id.

460 Statute of the International Court of Justice, Article 38 (1).
surrender part of their sovereignty to international organizations, and abide by rules and decisions that made by international organizations.\textsuperscript{461}

This “rule-making” process, or the decision-making system, is different from one international organization to another. The following section will survey five major decision-making systems that have been practiced on an international legal system level.

\textbf{III. The Decision-Making Process in the IMF}

The IMF was created through a long negotiation mainly between the United States and Great Britain. The IMF’s decision-making rules were designed to ensure that its member countries could cooperate with a diverse membership having different interests.\textsuperscript{462} The Bretton Woods conference adopted the weighted voting system for the IMF and the World Bank. However, in reality, it is rare for the IMF to call for a formal vote when making a decision. When this has happens, most of the time the vote has been almost unanimous.\textsuperscript{463} The IMF works under a cooperative framework that is based on consensus.\textsuperscript{464} All member countries try to reach agreement so that the proposal can be accepted by most, if not all, member countries.\textsuperscript{465}

Therefore, complex issues are discussed prior to the formal decision making process. As Houtven says, “nothing will be decided until everything is

\begin{footnotesize}
\begin{enumerate}
\item Sovereignty, or the state sovereignty, is the right of a state to self-government. It is a supreme authority exercised by each state. \textit{Black’s Law Dictionary} 1541 (9th ed. 2009). For a detailed introduction of sovereignty, see following section in Chapter Four.
\item HOUTVEN, supra note 60, at 23.
\item Gianaris, supra note 374, at 924.
\item HOUTVEN, supra note 60, at 23.
\item Gianaris, supra note 374, at 924.
\end{enumerate}
\end{footnotesize}
agreed. Of course, in some cases developing countries with less voting power could also use this consensus approach as an advantage. Houtven gives an example of how the developing countries vetoed a proposal of the Group of Seven in the fall of the year 2000. It is worth noting, however, that in this example the developing countries formed a group and voted against the proposal. If it had been a single developing country or just a few, it would have been almost impossible to block the proposal. This example shows the importance of cooperation for the developing countries to obtain a bigger voice in the IMF. Indeed, in order to make a fundamental change to the IMF’s decision-making system and restore the IMF’s good governance, a similar form of cooperation is necessary.

Before I get to a further discussion of the IMF’s decision-making system, I think a proper survey of major decision-making systems of international organizations is necessary to understand the whole issue.

IV. The Selection of A Better Decision-Making System

An important fact regarding international organizations’ decision-making system is that voting is an essential feature of the decision-making process. However, there are several different voting systems operating by different

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466 HOUTVEN, supra note 60, at 24.
467 Id. It is worth noting that the interests of developing countries are not always protected under a consensus approach decision-making.
468 See Id. According to Houtven, “[t]hat was most recently the case in the fall of 2000 during the review of IMF financing facilities, when the developing countries defeated a proposal of the Group of Seven regarding the rate of charge on the use of IMF resources and, instead, formulated a revised proposal that was acceptable to the Board as a whole.”
international organizations. I have discussed the fact that the weighted voting system and consensus approach, which are adopted and used by the IMF, do not ensure the IMF have good governance. In the following sections, I will review a catalog of major decision-making systems adopted by international organizations, including the rule of unanimity, the rule of majority, the rule of weighted voting, the consensus approach, and the bloc voting system before I make a selection of a better decision-making system for the IMF later in this chapter.

A. A Catalog of Major Decision-Making Systems

i. The Rule of Unanimity

The rule of unanimity, or the unanimity rule, requires a vote in which every voter concurs on a certain question.\(^{470}\) It is one of the oldest decision-making systems existing in international organizations. The rule of unanimity rests on the principle of state sovereignty. State sovereignty is the right of a state to self-government, which has been exercised by each state.\(^{471}\) Thomas Hobbes, an English philosopher, used a metaphor to describe the concept of “sovereignty” in his book *Leviathan* in 1648.\(^{472}\) Hobbes viewed sovereignty as an artificial person, and named it “Leviathan”.\(^{473}\) Hobbes wrote:

> The only way to erect such a common power, as may be able to defend them [the member of a group of humans] from the invasion of foreigners, and the injuries of one another, and thereby to secure them in such sort as that by their own industry and by the fruits of the earth they may nourish themselves and live

\(^{470}\) *See Black’s Law Dictionary* 1712 (9th ed. 2009).

\(^{471}\) *Id.* at 1541.

\(^{472}\) MARK JANIS, AN INTRODUCTION TO INTERNATIONAL LAW 159 (3rd ed., 1999).

\(^{473}\) *Id.*
contentedly, is to confer all their power and strength upon one man, or upon one assembly of men, that may reduce all their wills, by plurality of voices, unto one will: which is as much as to say, to appoint one man, or assembly of men, to bear their person; and every one to own and acknowledge himself to be author of whatsoever he that so beareth their person shall act, or cause to be acted, in those things which concern the common peace and safety; and therein to submit their wills, every one to his will, and their judgements to his judgement.\textsuperscript{474}

The image of Leviathan and the concept of state sovereignty quickly “become deeply imbedded in the public consciousness.”\textsuperscript{475} For centuries, the nation state was the only actor on the international stage. Thus, the principle of state sovereignty has been long embedded in the early history of international organizations.\textsuperscript{476}

Under the principle of state sovereignty, all nation states have exclusive and equal sovereignty. This means every state is equal and has the right to reject any decision it finds inappropriate and no state can be bound to a decision without its consent.\textsuperscript{477} Because a country does not surrender any sovereignty to the international organization, the international organization is not superior to that country and cannot force it to accept a decision.

In order to adopt a proposal under the rule of unanimity, an agreement must be reached among all members of the organization.\textsuperscript{478} Because every

\textsuperscript{474} Id. at 161. See also THOMAS HOBBES, LEVIATHAN, 89 (Cambridge University Press, 1991).

\textsuperscript{475} JANIS, supra note 472 at 161.


member has veto power, the rule of unanimity voting is considered “focus[ing] on preventing rather than passing legislation.” 479

The unanimity rule has been adopted for centuries. According to one resource, the Vikings adopted unanimity rules in their criminal trials. 480 Even today, many jurisdictions require a guilty verdict by a unanimous vote by the jury in criminal trials. As for international organizations, most of them chose unanimity rules as their decision-making system in early days. 481 A well-known example is the League of Nations, which was created briefly after World War I to prevent disputes between countries. 482 In addition, the Organization of the Petroleum Exporting Countries (OPEC) also has a statute requiring unanimous agreement of all full members for decisions of the OPEC conference – the supreme authority of the OPEC. 483 Another special example is the United Nations Security Council. For all non-procedural matters, decisions of the UN Security Council require an affirmative vote of nine members including the concurring votes of the permanent members. 484 In other words, all permanent members have veto power on non-procedural matters.

479 Id.
481 “Historically, unanimity has been the default voting rule in IGOs.” Blake & Payton, supra note 478, at 8.
483 The OPEC Statue, Chapter III, Article 11 C, “[a]ll decisions of the Conference, other than on procedural matters, shall require the unanimous agreement of all Full Members”.
484 The United Nations Charter, Chapter V, Article 27, “Decisions of the Security Council on all other matters shall be made by an affirmative vote of nine members including the concurring votes of the permanent members; provided that, in decisions under Chapter VI, and under paragraph 3 of Article 52, a party to a dispute shall abstain from voting.” Of course, these decisions only requires unanimous votes of permanent members, not all members.
There are both advantages and disadvantages of unanimity rule.\textsuperscript{485} The most conspicuous advantage is the protection of member countries’ interests. Because it is impossible to make a decision without every member’s consent, a country is able to veto any decision based on its perceived interests. This allows all member countries to exercise equal control over the organization’s decision.\textsuperscript{486}

Another advantage of unanimity rule is the effective implementation of an organization’s decisions.\textsuperscript{487} Because all members endorse the decision, the organization does not need any enforcement or additional incentive to implement it.

The disadvantages of unanimity rule are also conspicuous. First, it is difficult to reach an agreement under the unanimous voting rule because of member’s diverse interests. This is especially true for those large international organizations with over a hundred members. A negotiation among hundreds of members is certainly a difficult and arduous task. It is not uncommon to take months or even years to reach a unanimous agreement.

Second, since all countries have the veto power in an organization under the unanimity rule, they are able to use the veto power to “kidnap” the vote. For those small countries that do not have much influence, it is very tempting to threaten other countries to gain a better condition in the vote. The organizations adopting unanimity rule often face the dilemma that they need to either satisfy a country’s demand or face the failure of a vote.

The last disadvantage of unanimity rule is its ineffectiveness. As we discussed in the previous two paragraphs, an institution adopting unanimity rule


\textsuperscript{486} Blake & Payton, \textit{supra} note 478, at 8.

\textsuperscript{487} \textit{Id.}
may encounter difficulties in reaching an agreement. As Zamora points out, “to achieve unanimous consent, the strength of a decision must be diluted so as to please everyone.” This is unacceptable for an international organization that needs to make and implement “decisions to meet urgent, practical problems.” This makes the unanimity rule the least effective decision making system for large institutions facing such problems.

Last but not least, the size of an organization really matters. For smaller institutions, the problems of unanimity rule are not as severe as in bigger institutions. That is because having fewer members means less controversy and argument in achieving full agreement. So generally speaking, it is more plausible for a small-membership international organization to adopt the unanimity rule. However, for large international organizations, the unanimity rule is almost surely not the best option.

ii. The Rule of Majority

The rule of majority, or the majority rule, is a voting rule that requires more than 50 percent of a group of voters to make a decision. It is one of the most widely used decision making systems in international organizations in the modern world. Under the rule of majority, each member has one vote and a

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488 Zamora, supra note 477, at 574.
489 Id.
492 A weighted voting system might also involve some majority voting, of course, but not on the basis of the organizations’ members but rather on the basis of their weighted voting power. Weighted voting systems are discussed in the following subsection. This subsection explores majority rule in the absence of any weighting.
decision needs to obtain over 50 percent of the vote to pass.493 A decision made under the majority rule reflects the opinions of the majority member countries in an international organization.

The requirement of a majority vote, without further qualification, usually means a simple majority vote – that is a proposal needs over 50 percent of the votes to pass.494 In some special cases, if the outcome of a decision would greatly affect some or all of the members, then a higher majority of 70 percent, or even 85 percent, is required for a proposal to be adopted.495 This special version of the rule of majority is called the “special majority”. This is to make sure that in extreme cases the vote will not be passed if nearly half of the members vote against it.496 An example of this “special majority” decision-making rule is, as explained earlier, stated in the IMF Articles of Agreement, that any decision about financial and operational issues – such as distribution of general reserve or the methods of evaluation of the SDRs – requires a 70 percent majority vote.497 For the most important decisions of the IMF – such as new member admissions, quotas increase, SDRs allocations, and amendments to the IMF’s Articles of Agreement – an 85 percent majority vote is required.498

In the development of international organizations, the majority rule concept came much later than the unanimity rule. For centuries, nation states had adopted the principle of state sovereignty – and therefore the unanimity rule – to protect their sovereignty and national interests. In the early days of international

493 Blake & Payton, supra note 478, at 8.
494 See Black’s Law Dictionary 1040 (9th ed. 2009).
496 Id.
497 For a brief account of “special majority” decision-making rule, see supra text accompanying notes 96, 97, and 98. See also WEISS, supra note 47, at 7.
498 Id.
organizations, states did not want to surrender any of their sovereignty and lose control of the decision made by the international organization they joined.

The concept that a state, or a sovereign state, also needs to be bound to the rule it made, was mainly contributed by Hugo Grotius. Grotius asserted that treaties are a “more excellent kind of agreement[s]” and binding to states and the people of these states, just like private contracts binding the parties under the principle of the civil law – *pacta sunt servanda*. Because Grotius treated sovereign state as persons, he asserted that those sovereign states would have to rely upon the international communities for their well-being. Therefore, even though they could have rejected a decision based on the principle of state sovereignty, they would not do so.

The rule of majority also came from domestic sources. As majority rule has prevailed in domestic issues since the 19th century, the political leaders who participated in international organization decision-making brought their similar domestic experience to the international stage. This eroded the long lasting idea that international decisions had to be made unanimously.

On the other hand, many early international organizations were technical institutions that mostly focused on technical issues. For example, as noted earlier, the first international organization is the International Telegraph Union

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499 Hugo Grotius was a jurist in the Dutch Republic in the seventeenth century, who laid the foundations for international law based on natural law and *jus gentium* voluntarism.

500 JANIS, supra note 472 at 166.

501 This would translate from Latin as approximately “agreements must be kept”. “The rule [of *pacta sunt servanda* means] that agreements and stipulations, esp. those contained in treaties, must be observed”. See Black’s Law Dictionary 1217 (9th ed. 2009).

502 Id.

503 Zamora, supra note 477, at 571.

504 Id.

505 Id.
(ITU) founded in Paris in 1865.\textsuperscript{506} The ITU is responsible for issues that concern information and communication technologies.\textsuperscript{507} Member countries’ representatives in these technical institutions also were mostly technical experts.\textsuperscript{508} Therefore, they were more inclined to “[accept] majority decisions based on relatively objective technical standards.”\textsuperscript{509} In addition, countries were less motivated to protect their interests by obtaining veto power in these international technical institutions.\textsuperscript{510} Therefore, the majority rule was rapidly adopted by other non-technical international organizations in the 20th century.\textsuperscript{511}

As previously discussed, the unanimity rule is based on the doctrine of state sovereignty. It is an extension of principles of natural law that men are created equal.\textsuperscript{512} The doctrine of state sovereignty was established when interactions between countries were limited.\textsuperscript{513} In the 19th century, the international organizations were few and small, so it was easy for them to make decisions under the unanimity rule. Even though an organization failed to make a decision, it would not result in severe consequences.\textsuperscript{514}

However, the situation changed dramatically in the 20th century. More and more international organizations appeared on the international stage. Also, as time went by, the average size of international organizations became larger. Many

\textsuperscript{506} Today the ITU is known as International Telecommunication Union. The ITU became a specialized agency of the United Nations in 1947. The ITU website, \textit{History}, available at \url{http://www.itu.int/en/about/Pages/history.aspx}.

\textsuperscript{507} The ITU website, \textit{About ITU}, available at \url{http://www.itu.int/en/about/Pages/default.aspx}.

\textsuperscript{508} Zamora, \textit{supra} note 477, at 571.

\textsuperscript{509} \textit{Id}.

\textsuperscript{510} \textit{Id}.

\textsuperscript{511} \textit{See} \textit{Id}. at 575.

\textsuperscript{512} \textit{Id}.

\textsuperscript{513} \textit{Id}.

\textsuperscript{514} \textit{Id}.
of them had over a hundred member countries, so it was difficult to reach a unanimous agreement because a small country could successfully outvote a majority proposal.

Because of the increasing number and size of international organizations on the stage, the unanimity rule started to show its disadvantage of inefficiency, and has been gradually replaced by the rule of majority. Currently, most international organizations have adopted the majority rule. An example would be the General Assembly of the United Nations.\(^{515}\) The United Nations General Assembly consists of 193 members with each member having one vote. Decisions of the General Assembly on important questions require a two-thirds majority of the members present and voting.\(^{516}\) Decisions on other questions require a simple majority of the members present and voting.\(^{517}\)

Majority rule has many advantages over unanimity rule. First, it is much easier to make a decision. As one single member country can no longer block a decision, it promotes the organization’s activism, and makes the decision-making system more effective and efficient.\(^{518}\) Generally speaking, majority rule is more effective in large international entities. Second, for the sake of effectiveness, even though a decision may be made in spite of some disagreement, it still reflects the

\[^{515}\text{See the United Nations website, } About the General Assembly, \text{ available at } http://www.un.org/en/ga.\]

\[^{516}\text{The UN Charter, Chapter IV, Article 18, “1. Each member of the General Assembly shall have one vote. 2. Decisions of the General Assembly on important questions shall be made by a two-thirds majority of the members present and voting. These questions shall include: recommendations with respect to the maintenance of international peace and security, the election of the non-permanent members of the Security Council, the election of the members of the Economic and Social Council, the election of members of the Trusteeship Council in accordance with paragraph 1 (c) of Article 86, the admission of new Members to the United Nations, the suspension of the rights and privileges of membership, the expulsion of Members, questions relating to the operation of the trusteeship system, and budgetary questions. 3. Decisions on other questions, including the determination of additional categories of questions to be decided by a two-thirds majority, shall be made by a majority of the members present and voting.”}\

\[^{517}\text{Id.}\]

\[^{518}\text{Blake & Payton, supra note 478, at 12.}\]
opinion of the majority of members in an organization. Last, if a country is convinced that most of the time it will be in the majority group, there are more incentives for it to join an organization.

Of course, majority rule also has its disadvantages. First, unlike unanimity rule, majority rule breaches the principle of state sovereignty to some extent. A member country may find itself bound to a decision it does not favor, as long as it still wishes to stay in the organization and interact with other member countries. Therefore, majority rule provides less protection to members from an undesirable outcome. According to Daniel Blake, a member country might face “the risk of facing the tyranny of the majority.”

Second, if a country believes itself likely to be in the minority group of an organization, then it might not join or might leave the organization in order to eliminate any negative outcome. However, in the modern world, a country can hardly survive by itself. A country needs to participate on the international stage. So it is rare for a country to leave an organization simply because of one or two negative outcomes. Most of the time, countries are willing to accept decisions that conflict with their short-term interest, for the sake of long-term interests.

Third, majority rule has compliance problems. Unlike the unanimity rule, an outcome by majority rule often does not obtain the consent of all members. For those members who vote against a decision, there would be strong incentives not to comply with such a decision. However, compliance typically can be counted on to exist because of the direct sanctions of violating international law and the

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519 Id.
520 Id.
521 Id.
522 Id.
When countries sign treaties, they would normally include an enforcement or sanction clause to impose costs on countries for breaching the treaties. Nevertheless, sometimes there is no sanction clause in treaties. Because of the reputational implications, countries still have incentives to comply with a decision. They see a greater benefit in the long term if they honor the treaties and continue interacting with other countries. Today, the whole world is connected economically. Most countries gain benefits from international trade and cooperation and no country wants to be isolated. It is in a country’s best interest to maintain a good reputation and to comply with international law even without any enforcement. This incentive is a stronger offer than an outside enforcement. Some evidence also suggests that international law is obeyed more often than domestic laws.\footnote{Anu Bradford & Omri Ben-Shahar, Efficient Enforcement in International Law, University of Chicago Law & Economics, Olin Working Paper No. 512, (2010).}

iii. The Rule of Weighted Voting

After World War II, another decision-making system was developed and widely adopted by many international financial institutions. That is the third major decision-making system I am introducing: the rule of weighted voting.

The rule of weighted voting, or the weighted voting system, is a voting system in which the voting power is allocated among the voters according to a series of fixed weight.\footnote{See Black’s Law Dictionary 1712 (9th ed. 2009).} The weighted voting system is fundamentally different from the unanimity rule and the majority rule. Both the unanimity rule and the majority rule are equal voting systems and every member country is treated...
equally. Although member countries have to surrender part of their state sovereignty and be bound to decisions under majority rule, they are still equal in the context of decision-making because each country has one vote.

On the contrary, member countries are not equal under the weighted voting system. The weighted voting system distributes voting powers to members based on some certain factors, such as a member’s contribution and influence to the international organization in which it participates. For example, under the weighted voting system of the IMF, a member country’s vote is based on that country’s quota, which is a reflection of that member country’s economic strength.

The weighted voting system, to some extent, can also be seen as a special majority voting system without the “one state, one vote” principle. Under the weighted voting system, when an international organization is making a decision, the proposal still requires a majority votes to pass. The difference compared to the majority rule is that each member has different voting power.

The weighted voting system is an old concept that could date back to Ancient Rome, but it was not widely adopted in the public sector until after World War II. After the war, the Western countries attempted to create a new financial

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527 See the IMF Articles of Agreement, Articles XII, Section 5 (a). “The total votes of each member shall be equal to the sum of its basic votes and its quota-based votes. (i) The basic votes of each member shall be the number of votes that results from the equal distribution among all the members of 5.502 percent of the aggregate sum of the total voting power of all the members, provided that there shall be no fractional basic votes. (ii) The quota-based votes of each member shall be the number of votes that results from the allocation of one vote for each part of its quota equivalent to one hundred thousand special drawing rights.”

528 Gianaris, supra note 374, at 910. The Roman assemblies used weighted voting based on the tribal affiliation and social class of a person. In addition, the weighted voting system has long been adopted by private sector corporations.
institutional regime to restore international economic order. They assumed it was time to “experiment with new organizations and with new voting structures that would help ensure their success.” Realizing that the principle of state sovereignty and the doctrine of equality of states had been embedded in international law for centuries, legal scholars found ways to justify the legitimacy of the weighted voting system. For example, Zamora distinguished the concept of “equality before the law” and “equality of participation and responsibilities”, contending that equal voting system only achieved “equality before the law”, but not “equality of participation and responsibilities.” In other words, in equal voting system, the concept of equal did not “account for the added burden, responsibility, and contribution of major powers.”

These and other factors regarding alternative voting systems played a role in the creation of the IMF and the World Bank at the Bretton Woods Conference in 1944. According to one authority, the direct incentive to establish these financial institutions was to monitor the international economy. To accomplish this, both institutions adopted the weighted voting system and distributed power among its decision-making organs based on quotas. Thus, the United States and other industrialized member countries had significantly more votes and more control over the institutions. This put many developing countries at a

529 Zamora, supra note 477, at 576.
530 Id.
532 Id. Also see Zamora, supra note 477, at 573.
533 Id.
534 “They were more concerned with creating institutions in which the Allied Powers could serve as monitors of the international economy”. Id. at 576. Of course, the IMF, not the World Bank, serves mainly as a monitor of the international economy.
disadvantage, leading to dissatisfactions.\textsuperscript{536} In responding to this issue, the IMF and the World Bank adopted consensus as a more commonly used decision-making process in practice.\textsuperscript{537}

The weighted voting system can be viewed as having generally promoted international organizations’ activism. Many international organizations are ineffective because of disagreement among member countries. This makes it difficult to make decisions under the unanimity rule or even a majority rule.\textsuperscript{538} But this is unlikely to happen in a weighted voting system organization, because support from several major powers may be enough to pass a proposal.

The IMF and the World Bank served as models for other international financial institutions.\textsuperscript{539} Many regional banks also have adopted the weighted voting system for decision-making purpose. For example, in the African Development Bank Group, each member country has “an equal number of basic votes in addition to a number of votes proportionate to its paid-in shares.”\textsuperscript{540} It is worth noting that most international organizations adopting the weighted voting system are financial institutions. The reason is that financial institutions, unlike technical organizations, rely heavily on certain major member countries’ financial contributions. These contributions are so important that a greater power is given to those countries that make relatively large contributions. In this way, these

\textsuperscript{536} Payton, supra note 531, at 12.

\textsuperscript{537} The consensus decision-making system will be further discussed in the next section.

\textsuperscript{538} “For instance, during the Cold War, the UN Security Council was often rendered ineffective by disagreements between the United States and the Soviet Union, both of whom benefitted from the privilege of possessing one of only five rights of veto awarded to members of the UN. However, the International Monetary Fund (IMF) has been very active since its creation following the Second World War as developed states, possessing the majority of votes, have consistently agreed over the broad framework of goals that the IMF should pursue.” Blake & Payton, supra note 478, at 13.

\textsuperscript{539} Zamora, supra note 477, at 576.

financial institutions can ensure that those major financial market countries maintain their memberships and actively participate in the organizations’ performance of their functions.\(^{541}\)

From another perspective, when a country makes a large contribution to an organization, it is natural for that country to demand a greater amount of control in the organization because that country would want to know how its contribution is managed.\(^{542}\) Since such a country has a larger contribution in the organization, its funds are more contingent upon the organization’s performance.

Of course, there are also some shortcomings of the weighted voting system. For example, many scholars argue that an obvious shortcoming of the weighted voting system is the incentives for non-compliance.\(^{543}\) However, those observers do not give adequate weight to the fact that most organizations adopting weighted voting systems are financial institutions. As long as a member relies on the financial services provided by the institution, it has to comply with the decision even if it votes against it. This is especially true during a financial crisis period: many countries need financial support, so they are even willing to accept loans attached with conditions.\(^{544}\)

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\(^{542}\) *Id.*

\(^{543}\) *Id.* at 15. “As Koremenos, Lipson and Snidal (2001) point out, under majoritarian voting, states may find themselves in the majority on some occasions and in the minority on others and thus may be willing to abide by IGO [inter-governmental organization] decisions when they are in the minority, in the expectation that they will reap the benefits of other states’ reciprocal compliance when they are in the majority. However, under weighted voting, those states whose votes are not heavily weighted are frequently in a position where they have little influence over institutional decisions. This leads, in turn, to the frequent subordination of their preferences causing weaker states to often have little incentive to comply with decisions taken by the IGO. Once defection becomes widespread then the institution will become weak and privileged members with greater voting power will not be able achieve their goals through the institution.”

\(^{544}\) See Martin Feldstein, *Refocusing the IMF*, 77 FOREIGN AFFAIRS 2, 20-33, 24, (1998). The IMF imposed extensive conditions with the financial packages emerging from international financial institution during the Asian Financial Crisis, including details such as the price of gasoline and the
Another shortcoming is the representation issue, which has been controversial in the weighted voting system at international levels. Smaller countries often emphasize the importance of the doctrine of sovereignty equality, and demand a more equal representation such as the “one country, one vote” principle.\textsuperscript{545}

In addition, many observers criticize the effective veto power of the United States in both the IMF and the World Bank. Many believe that super power countries are legally – and should be treated as – basically equal to small countries, so the United States should not retain the effective veto power.\textsuperscript{546} Indeed, we do not see this kind of effective veto power in many other financial institutions that have adopted the weighted voting system. For example, currently there is not a single member country of the African Development Bank Group that has effective veto power.\textsuperscript{547} The Board decisions of the African Development Bank Group are generally made through discussion and consensus.\textsuperscript{548}

manner of selling plywood, despite the fact that many countries were rather loath to accept these conditions.

\textsuperscript{545} Id.

\textsuperscript{546} This is because the United States only represents the government, not the people behind it. One former Director General of UNESCO, Amadou-Mahtar M’Bow said, “[this allocation of vote shares through proportional representation] overlooks the fact that it is not the Americas, the Chinese, or the people of the Seychelles who vote the in General Assembly (or other similar assemblies), but the States themselves, and that each State constitutes a sovereign entity, which is in law equal in every way to any other entity of the same kinds.” See Payton, \textit{supra} note 531, at 9.

\textsuperscript{547} Each member country of the African Development Bank Group has 625 votes and, in addition, one vote for each share of the capital stock of the Bank held by that member. All matters before the Board of Governors, except great important issues, generally require a majority of sixty-six and two-thirds percent of the voting power of the members represented at the meeting. Issues declared by a member as being of great importance require a majority of seventy percent of the total voting power. Currently no member country has a voting power larger than thirty percent of the total voting power. See Agreement Establishing the African Development Bank, Article 35, \textit{Voting}.

As for the IMF voting powers distribution, some countries disagree with the current standard by which the relative quotas are established – that is, quotas are assigned based on member countries’ economic strength – insisting on adding more standards in addition to financial contributions and resources, such as populations. In fact, the IMF Executive Board did discuss the inclusion of population in the quota formula in the 10th Quota Review in 1995.  

The proponents for including population have emphasized the fact that global decision-making affects the economic welfare of all people in the world. Indeed, population is an economic variable that bears directly on a country or even the world economy and financial system – labor supply and employment situation are critical components of a country’s economic performance. Therefore, an inclusion of population in the quota-determination calculations would capture members’ relative stakes in the international public goods provided by the IMF. In addition, this would give those high-population least developed countries a larger voice in the IMF. However, inclusion of a population variable has not been supported by the IMF Executive Board, for the reason that the IMF is essentially a monetary institution and population does not bear directly on international monetary issues. I agree that the quota formula should focus on member countries’ financial contributions, which is more related to the IMF’s purposes.

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549 IMF Finance Department, Quota Formula Review – Further Considerations, 23, (2012).
550 Id.
552 IMF Finance Department, Quota Formula Review – Further Considerations, 23 (2012).
553 Id. at 24.
554 However, it is equally inappropriate to limit the formula exclusively to financial contributions, without considering any other factor such as population. In Chapter Four, I propose a method of “voting blocs” to address this issue.
In addition, the proposal of including population in the quota formula would favor certain countries, such as China and India, disproportionately.555

iv. The Consensus Approach

Consensus is usually regarded as a decision-making process that involves a general agreement without objection, regardless of whether every voter affirmatively approves.556 There are in fact, however, many definitions to the concept of consensus. Movsisyan lists a few scholarly definitions in his article Decision Making By Consensus in International Organizations As a Form of Negotiation as follows:

Geoff Berridge has defined consensus decision making as “an attempt to achieve an agreement of all the participants in a multilateral conference without the need for a vote and its inevitable divisiveness.” In other words, it is an agreement of all taken unanimously by means other than voting. Kahler states that “the effort to achieve consensus … protects the interests of those who risk becoming permanent minorities at each institution”. According to the rules of procedure of the Helsinki process consensus is “the absence of any objection expressed by a Representative and submitted by him as constituting an obstacle to the taking of the decision in question”. United Nations Convention of the Law of the Sea defines consensus as “the absence of any formal objection”.557

All these definitions reveal that by way of consensus, an organization should make every effort to reach agreement on substantive matters and there should be no voting on such matters until all efforts at consensus have been

555 See Elizabeth McIntyre, Weighted Voting in International Organizations, 8 INTERNATIONAL ORGANIZATION 4, 495 (1954).
557 Suren Movsisyan, Decision Making By Consensus in International Organizations as a Form of Negotiation, 1 21ST CENTURY 3, 78, (2008).
exhausted. In order words, “[t]he key indicator of whether or not a consensus has been reached is that everyone agrees they can live with the final proposal; that is, after every effort has been made to meet any outstanding interests.” Most of the time, consensus requires negotiation. But in rare cases consent might be reached without a formal negotiation.

Apparently, a consensus does not require a unanimous opinion. Thus, a group is more likely to achieve an agreement under the consensus approach. In reality, some international organizations attempt to define the requirements of consensus for the decision-making purpose. For example, the Marrakesh Agreement, which established the World Trade Organization, states that “[t]he body concerned shall be deemed to have decided by consensus on a matter submitted for its consideration, if no Member, present at the meeting when the decision is taken, formally objects to the proposed decision.” Both the IMF and the World Bank are also making efforts to reach consensus in order to avoid formal voting, even though they adopted weighted voting as the formal decision making rule. The By-Laws Rule C-10 of the IMF’s Rules and Regulations states that “[t]he Chairman shall ordinarily ascertain the sense of the meeting, in lieu of a formal vote.” Other international organizations also use the consensus approach as a common practice, though they do not formally adopt consensus in their charters. For instance, the UN Charter never expressly identifies consensus as a formal decision-making method. However, approximately three fourths of resolutions of the UN General Assembly were adopted without a vote.

558 See also Payton, supra note 531, at 5.
562 Payton, supra note 531, at 2.
This is not to say these international organizations gave up the formal voting procedures as stated in their charters. Instead, member countries simply attempt to make decisions by consensus and, only when failing to achieve a consensus, do they turn to the formal voting.\textsuperscript{563}

As was previously pointed out, the weighted voting system was more widely adopted by international financial institutions, compared to the unanimity rule and majority rule. Then, why in the 1970s, as more and more independent states entered the international stage, did consensus decision making grow in popularity? There are three main reasons explaining the wide use of consensus decision-making in more recent decades.

First, consensus is for certain purposes regarded as one of the best options for both developing countries and developed countries. As Payton points out, the developing countries “would prefer voting rules in the following order: weighted voting in favor of developing countries, simple majority based upon one state, one vote principle, consensus decision-making, and finally rules weighted in favor of powerful, industrialized countries.”\textsuperscript{564} This is because in the voting procedure, developing countries generally have advantages in terms of their numbers but are “weak in material resources including financial resources, military strength, and trade advantages”, because of their similar (and relatively low) economic development levels.\textsuperscript{565} On the other hand, for similar reasons, developed countries’ preferences would have to be, in descending order, the weighted voting system in their favor, consensus decision-making, simple majority voting, and finally weighted voting in favor of developing countries.\textsuperscript{566} As indicated above, a simple majority vote is rarely used in international financial institutions, thus making

\begin{itemize}
  \item \textsuperscript{563} Id.
  \item \textsuperscript{564} Payton, supra note 531, at 14.
  \item \textsuperscript{565} Id. at 14.
  \item \textsuperscript{566} Id. at 15.
\end{itemize}
consensus decision-making the best available alternative to weighted voting. Both developed countries and developing countries have some say in consensus decision-making. According to Payton, the consensus decision-making approach “offers major powers a way to win the votes of developing countries by engaging in issue linkage or offering side-payments to states that are willing to go along with a particular policy they may have otherwise opposed.”

Second, consensus is supposed to be more productive because all member countries, theoretically, are participating in the negotiating process. As every country participates in the decision-making process and expresses its voice, each representative of a country “feels that he or she has been heard and can support the decision that the group is moving toward.” Consensus promotes the common ground of the negotiation before a possible voting, and provides a protection to the interests of the minority group. For a large group consisting of hundreds of members, it is the best solution to persuade members to support a vote even if it is not the decision that member prefers.

Last but not least, consensus does not face the same degree of a compliance problem as the majority-rule approach does, since it seeks “overwhelming agreement that goes as far as possible toward meeting the interests of all stakeholders.” In reality, some countries may even offer side-payments in exchange for the opposing countries’ compliance under the

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567 Id.
569 Id.
570 HOUTVEN, supra note 60, at 30.
consensus system.\textsuperscript{572} When these are taken into account, countries might have less incentive to cast a formal vote.\textsuperscript{573} It also allows international organizations to more easily implement a decision made under consensus.

This does not mean that the formal voting procedure, the weighted voting system, is not important in the IMF. On the contrary, it still plays an essential role in the negotiation of consensus building.\textsuperscript{574} Consensus building is based on each member country’s voting power. A significant change of voting power may well affect the member country’s ability to influence a decision in the future.\textsuperscript{575}

However, there are also shortcomings to the consensus process of decision-making. The first issue is the lack of transparency.\textsuperscript{576} Most negotiations are undertaken behind the scenes, out of the public eye, and are not officially recorded. This results in the whole negotiation process being opaque, and it leaves room for deals to be made under the table. As discussed earlier, many countries offer side-payments to “buy votes”, which is considered a way of abusing the process of consensus.\textsuperscript{577} According to Woods, the requirement of consensus approach has “encouraged powerful states to offer concessions and to use retaliatory threats.”\textsuperscript{578} This practice would allow those major power countries to take advantage of the consensus decision-making process and force small countries to accept conditions.

The second issue is participation. Consensus approach encourages negotiations and all member countries are supposed to have opportunities to

\textsuperscript{572} Payton, supra note 531, at 19.
\textsuperscript{573} Id.
\textsuperscript{574} Zamora, supra note 477, at 568.
\textsuperscript{575} Id. at 569.
\textsuperscript{576} Woods, supra note 178, at 51.
\textsuperscript{577} Id.
\textsuperscript{578} Id.
express their voices. However, sometimes the negotiation process in order to achieve consensus results in a situation in which “only a restricted number of members get to participate in the process of real decision-making.”\textsuperscript{579} This is because sometimes countries would prefer bilateral negotiations and thus naturally exclude some members from small groups.

The third issue is accountability. As was stated above, an informal consultation aimed at achieving a consensus would likely be undertaken at higher levels, with small group meetings, and would therefore purposefully exclude certain members. Countries that were especially affected by a decision may be excluded from these group meetings.\textsuperscript{580} It is possible that powerful countries could take advantage of bilateral pressure and only include certain countries in their consensus decision-making process.\textsuperscript{581}

Last, consensus decision-making is usually a time consuming process and makes an international organization less efficient. Consensus approach is intended to fully take into account the interests of all member countries and to acknowledge the different interests among member countries. If done conscientiously, this may involve many bilateral negotiations and small group meetings. Therefore, it is common to take days or even weeks to reach a consensus in large international organizations. It is true, however, that once a decision made by consensus, it would be easier and usually less time-consuming to implement. But the process it takes to just reach the consensus is very time-consuming.

\textsuperscript{579} Id. at 50.

\textsuperscript{580} Id. at 52.

\textsuperscript{581} “Consensus decision-making [may involve] only those present at a meeting and not necessarily all those who should be included in a particular decision.” Id.
v. The Bloc Voting System

The last voting procedure I introduce is the bloc voting system, which is a way that members vote by voting blocs. A voting bloc is a group of persons or political units aligned with a common interest or purpose, even if only temporarily.\textsuperscript{582} The bloc voting system sometimes is not considered as an individual voting system, because the bloc voting is still based on – or implemented through – the majority rule to make a final decision.\textsuperscript{583}

Under the bloc voting system, an organization divides its members into groups – the voting blocs, for a two-step voting process. In the first step of voting, each voting bloc must reach an “internal” agreement, or a decision. This internal agreement could be made by means of a unanimous vote, a simple majority vote, a weighted vote, or consensus approach. After that, all voting blocs make a final decision among themselves by a majority vote of all voting blocs in aggregate. In this way, it is easier for all members to reach consensus because members within a voting bloc have common interests. If all members of an organization negotiate together at the same time, it would not be easy for them to reach consensus.

Persons, political units, or even countries would want to vote in blocs because they see this as a better way to balance the benefits and interests among members of an organization. At the national level, for a long time, countries, especially developing countries, had long “formed alliances and made decisions in groups whenever their national interests coincided.”\textsuperscript{584} Developing countries found that in this way, they could take advantage of forming groups to accumulate

\textsuperscript{582} See Black’s Law Dictionary 194 (9th ed. 2009). In addition to common interest, sometimes they can be based on some other commons, such as geographic locations, or cultures.

\textsuperscript{583} Of course, it is also possible to implement a bloc voting through the unanimity rule or other decision-making methods. However, it is more common to implement a bloc voting through the majority rule.

\textsuperscript{584} Zamora, supra note 477, at 601.
their voting powers and hold a better position in negotiation with developed countries.

For an international organization, how to balance the interest, or stakes, among member countries, is also a long existing problem in the decision-making process. Woods divides the stakeholders of an international organization into “member governments who contribute resources, members whose compliance is required for the institution to be effective, and members who represent groups affected by the institution’s policies.” To better reflect and balance the various groups, it is natural for the international organization to categorize countries into different groups for the decision-making process. Even in the IMF, there are constituencies that consist of certain member countries for the Executive Director election.

The concept of bloc voting is not new. The Curiate Assembly, one of the legislative assemblies of the Roman Kingdom, used a bloc voting system based on voting blocs – “Curia.” At that time, voters in Rome were divided amongst a total of thirty Curia. These Curia were the basic units in the legislative assemblies. Each of the adult males of Rome would vote in his own Curia. Then each Curia would cast a single vote before the assembly based on the majority of

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585 Woods, supra note 178, at 53.
586 For a detailed list of the IMF constituencies, see APPENDIX 1. THE IMF EXECUTIVE DIRECTORS AND VOTING POWER, AS OF DECEMBER 2013. Although these constituencies are for the purpose of Executive Director election, it de facto constitutes a form of bloc voting in the IMF.
587 The Curia was the basic units of division in the Legislative Assemblies. It is a “religious, social and political group based on birth.” See GEORGE WILLIS BOTSFORD, THE ROMAN ASSEMBLIES: FROM THEIR ORIGIN TO THE END OF THE REPUBLIC 13 (2011).
that Curia.\footnote{GEORGE WILLIS BOTSFORD, THE ROMAN ASSEMBLIES: FROM THEIR ORIGIN TO THE END OF THE REPUBLIC 13 (2011).} A vote before the legislative assemblies would require a majority of the Curia, that is, sixteen out of the thirty total Curia.\footnote{Id.} Another example in which bloc voting can be seen is the United Nations General Assembly. Although the UN General Assembly uses majority rule to vote in principle and the UN Charter does not identify subgroups of UN states, in practice, the UN member countries who have similar political, historical or cultural backgrounds have organized themselves into various groups based on areas of mutual interests, particularly when elections are held for significant positions.\footnote{United Nations International Model United Nations, UNIMUN Conference Handbook 19 (2000).} By doing so, they “increase their influence above the level that they would have as a single nation in the General Assembly.”\footnote{Id. at 20.} There were originally only four regional groups in the General Assembly.\footnote{They are the Latin American group, the Asian and African group, the Eastern European and the Western European group, and the group of “others”.

\footnote{Id. See also Madeleine O. Hosli, Evelyn van Kampen, Frits Meijerink, & Katherine Tennis, Voting Cohesion in the United Nations General Assembly: The Case of the European Union, ECPR Fifth Pan-European Conference Paper 12 (2010). “One example is the Non-Aligned Movement (NAM), founded in 1961 mainly by third world countries, in an effort to avoid involvement in the East-West conflict. The NAM today still acts as the political grouping of the countries of the ‘South’. Similarly, the ‘Group of 77’, founded in 1974, mainly represents the economic interests of the Third World. Both groups currently have over 100 members (Petersen, 2006: 44), but the degree of cohesion has changed and become somewhat diluted over time. The}
that these groups are not formal voting blocs. They are only “groups that meet, depending on the circumstances, to attempt to reach a consensus on various issues.”

595 Thus, member countries within these groups often do not reach consensus on all issues. 596 They often vote in their own best interest and dissent from the group’s majority opinion. 597

On the other hand, some international institutions have formally made voting blocs as a part of the decision-making process in their governance structures. 598 The following paragraphs identify and explain some illustrative examples:

The first example is the United Nations Conference on Trade and Development (UNCTAD). 599 The UNCTAD is a part of the United Nations Secretariat, with the purpose to promote trade, investment, and development. 600 Its highest decision-making body is the quadrennial conference, at which member countries “make assessments of current trade and development issues, discuss policy options and formulate global policy responses.” 601 The conference meets every four years to set the organization’s mandate and work priorities. 602 At the conference, member countries are divided into four lists, with six members

“Western European and Others’ group – of which Western European countries and the US have always been a part – has traditionally been the least cohesive (Petersen, 2006).”

595 See supra note 591, at 20.
596 Id.
597 Id.
598 Zamora, supra note 477, at 601.
599 Id.
601 Id.
602 Id.
currently still unassigned. List A consists mostly of countries in Africa and Asia, including South Africa and China. List B consists of countries in Western Europe and North America, including countries such as Netherlands and the United States. Japan and New Zealand are also in List B. List C consists of countries in South America, including Brazil and Chile. List D consists of countries in Eastern Europe, such as Croatia and Romania.

From the above, it can be inferred that the UNCTAD membership is divided based on geographic and economic factors. Since the UNCTAD is a conference on trade and development, it is rational to use the economy as a factor to divide the membership. But why did the UNCTAD take geographic region factor into account? Generally speaking, many countries in an area have a similar pace of economic development. For example, most of the least developed countries are African countries, while almost all developed countries are located in West European and North America. Many Asian countries are emerging market countries. More than a dozen East European countries were formerly part of the USSR and share a lot in common in their economic policies. Perhaps this is why Japan and New Zealand are also included in the Western Europe and North American list.

This divided membership is helpful in reaching consensus during the UNCTAD quadrennial conference. Zamora made his comment on the UNCTAD membership list as follows: “Provisions in UNCTAD’s Charter and procedural rules require positions to be established within each group, which then presents the position to other groups as a solid front. The importance of individual voting

604 Id.
is minimized.” Indeed, this membership structure minimizes individual countries’ voting power. An individual country’s voice is not entirely based on its voting power, but is expressed and amplified through the voice of a group.

It is worth mentioning that many scholars view the UNCTAD as an advisory department, unlike the WTO which often issues binding decisions on member countries’ disputes. The UNCTAD conference only meets every four years and it does not make binding resolutions. Indeed, voting is relatively rare in the UNCTAD. Instead, all members are seeking consensus through the conference.

The second example is the International Fund for Agricultural Development (IFAD). The IFAD is a specialized agency of the United Nations whose mission is eliminating rural poverty in developing countries. In order to do so, the IFAD has designed and implemented many projects, which include enhancing business arrangements through capacity development of small farmers, improving access to agricultural and rural finance, and strategic capacity strengthening and infrastructure. Currently, the IFAD’s membership is open to any country that is a member of the United Nations. The membership is classified into three lists and three sub-lists.

List A is primarily Organization for Economic Co-operation and Development (OECD) members, including countries such as Germany and the

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605 Zamora, supra note 477, at 601.
607 Zamora, supra note 477, at 581.
United States.\textsuperscript{611} They are all developed countries and most of them are located in Europe and North America.

List B is primarily the Organization of the Petroleum Exporting Countries (OPEC) members – for example, Saudi Arabia and the United Arab Emirates.\textsuperscript{612} They are all oil exporting countries and most of them are Middle East countries.

List C is composed of developing countries.\textsuperscript{613} List C is further divided into three sub-lists. Sub-list C1 is African countries. Sub-list C2 contains European, Asian and Pacific countries. Sub-list C3 is Latin America and Caribbean countries.\textsuperscript{614}

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\textsuperscript{611} The IFAD website, List A, available at http://www.ifad.org/governance/ifad/lista.htm. List A countries include: Belgium, Canada, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, and the United States.

\textsuperscript{612} The IFAD website, List B, available at http://www.ifad.org/governance/ifad/listb.htm. List B countries include: Algeria, Gabon, Indonesia, Iran (Islamic Republic of), Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

\textsuperscript{613} The IFAD website, List C, available at http://www.ifad.org/governance/ifad/listc.htm. List C countries include: Afghanistan, Albania, Angola, Antigua and Barbuda, Argentina, Armenia, Azerbaijan, Bangladesh, Bahamas (The), Barbados, Belize, Benin, Bhutan, Bolivia (Plurinational State of), Bosnia and Herzegovina, Botswana, Brazil, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Comoros, Congo, Cook Islands, Costa Rica, Côte d’Ivoire, Croatia, Cuba, Cyprus, Democratic People's Republic of Korea, Democratic Republic of the Congo, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Gambia, Georgia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, India, Israel, Jamaica, Jordan, Kazakhstan, Kenya, Kiribati, Kyrgyzstan, Lao People's Democratic Republic, Lebanon, Lesotho, Liberia, Madagascar, Malawi, Malaysia, Maldives, Mali, Malta, Marshall Islands, Mauritania, Mauritius, Mexico, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nauru, Nepal, Nicaragua, Niger, Niue, Oman, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Republic of Korea, Republic of Moldova, Romania, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, Solomon Islands, Somalia, South Africa, South Sudan, Sri Lanka, Sudan, Suriname, Swaziland, Syria, Tajikistan, Thailand, The Former Yugoslav Republic of Macedonia, Timor-Leste, Togo, Tonga, Trinidad and Tobago, Tunisia, Turkey, Tuvalu, Uganda, United Republic of Tanzania, Uruguay, Uzbekistan, Republic of Vanuatu, Viet Nam, Yemen, Zambia, and Zimbabwe.

\textsuperscript{614} The IFAD website, IFAD member states, available at http://www.ifad.org/governance/ifad/ms.htm.
These three lists are not permanent and can be changed from time to time.\textsuperscript{615} A member country can, upon joining the IFAD, decide which list it wishes to be placed in.\textsuperscript{616} A member can also submit a request to withdraw from a list at the time of the list membership election.\textsuperscript{617}

With such a divided membership, the IFAD’s governance structure is unique among any other UN organs. The reason was that the IFAD had to seek a balance between developed and developing countries.\textsuperscript{618} When the IFAD was established, it relied heavily on the developed countries’ financial contribution and also the developing countries’ cooperation. The highly conflicted interest between these two groups made the IFAD reach a compromise between those two groups.

Under this structure, voting power is further divided into “original votes” and “replenishment votes”.\textsuperscript{619} The original votes are the votes distributed to

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\item[615] Agreement Establishing the International Fund for Agricultural Development, Schedule II, 3(a). Lists of Member Countries. “The Member Countries shall be divided, form time to time, into Lists A, B and C for the purposes of this Schedule. Upon joining the Fund, a new Member shall decide on which List it wishes to be placed and, after consultation with the Members of that List, shall provide appropriate notification thereof to the President of the Fund in writing. A Member may, at the time of each election for the members and alternate members representing the List of Member Countries to which it belongs, decide to withdraw from one List of Member Countries and place itself upon another List of Member Countries, with the approval of the Members therein. In such event, the concerned Member shall inform the President of the Fund in writing of such change, who shall, from time to time, inform all Members of the composition of all the Lists of Member Countries.” Available at http://www.ifad.org/pub/basic/agree/e/!01agree.pdf.
\item[616] Id.
\item[617] “A Member may, at the time of each election for the members and alternate members representing the List of Member Countries to which it belongs, decide to withdraw from one List of Member Countries and place itself upon another List of Member Countries, with the approval of the Members therein. In such event, the concerned Member shall inform the President of the Fund in writing of such change, who shall, from time to time, inform all Members of the composition of all the Lists of Member Countries.” Id.
\item[619] Id.
\end{itemize}
\end{footnotesize}
member countries upon the establishment of IFAD, while the replenishment votes refer to votes “upon each occasion that additional contributions are called for.”620 Both original votes and replenishment votes are further divided into “membership votes” and “contribution votes”.621

This structure ensures that no member country of the IFAD feels unrepresented, and therefore does not have dissatisfaction with its voice or voting power.622 As far as this governance structure’s efficiency is concerned, a report from the IFAD Independent Office of Evaluation reveals that “IFAD has never suffered from a backlash of its membership against purported ineffectiveness.”623 The report further concludes that “[t]here are efficiency implications for dividing IFAD Member States into three Lists (A, B and C), in line with the Agreement Establishing IFAD. The relevance of the List system in today’s context deserves discussion in the future, considering the evolution in the profile of IFAD Member States over the last 35 years.”624 In other words, this bloc voting system is efficient except that the voting blocs are fixed and cannot reflect the current profile of IFAD member countries. Thus, if the IMF were to adopt a bloc voting system, its voting blocs should be adjustable, and not permanent.

The third example is the International Coffee Organization (ICO), which is the main intergovernmental organization for coffee trade.625 The ICO’s mission is to bring together the coffee exporting and importing governments to “strenthen the global coffee sector and promote its sustainable expansion in a

620 Id.
621 Id.
623 Id. at 86.
624 Id.
market-based environment for the betterment of all participants in the coffee sector” through international cooperation. The ICO currently has 45 members as of 2013. The member countries are divided into two groups: the exporting members group, and the importing members group. The ICO’s decisions are usually reached on the basis of consensus between these two groups. The ICO acknowledges that the consensus of both exporting members and importing members is important. Through the consensus approach, the ICO’s measures, which could have major impacts on its member countries, can achieve as much support as possible. In this way, the ICO has better enhanced the cooperation between members that consume, distribute and produce coffee.

Of course, there are many other International Organizations, or treaty regimes, that use similar bloc arrangements. A list of some of these organizations and treaty regimes can be found in Jacob Cogan’s article Representation and Power in International Organization: The Operational Constitution and Its Critics:

626 The ICO’s missions and activities include “developing and seeking finance for projects that benefit the world coffee economy”, “facilitating information on financial tools and services to assist producers”, “providing objective and comprehensive economic, technical and scientific information on the world coffee sector”, etc. For a more detailed list of the ICO’s activities, see the ICO website, Mission, available at http://www.ico.org/mission.asp.

627 Id. The member countries include 39 exporting members and 6 importing members. The exporting members include Angola, Bolivia, Brazil, Burundi, Cameroon, Central African Republic, Colombia, Costa Rica, Côte d’Ivoire, Cuba, Ecuador, El Salvador, Ethiopia, Gabon, Ghana, Guatemala, Honduras, India, Indonesia, Kenya, Liberia, Malawi, Mexico, Nicaragua, Panama, Papua New Guinea, Paraguay, Philippines, Rwanda, Sierra Leone, Tanzania, Thailand, Timor-Leste, Togo, Uganda, Vietnam, Yemen, Zambia, and Zimbabwe. The importing members include European Union (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and United Kingdom), Norway, Switzerland, Tunisia, Turkey, and the United States.


“International commodities agreements divide votes equally between exporting and importing nations in the councils of such organizations and allocate individual states a subset of votes based upon the volume of their exports or imports. The Montreal Protocol requires that decisions of the Executive Committee of the Multilateral Fund be approved (in the absence of consensus) by two-thirds majorities of both developing and industrial countries. The Convention on the Intergovernmental Maritime Consultative Organization (now the International Maritime Organization) allocates seats in the organization’s council according to the “interests” of its members (for example, international shipping services or seaborne trade), and the Convention on International Civil Aviation sets aside seats in the Council of the International Civil Aviation Organization to “States of chief importance in air transport” and states with the “largest contribution to the provision of facilities for international civil air navigation.” In the Constitution of the International Labour Organization, “Members of chief industrial importance” are given representational preference over other states in the organization’s Governing Body, and the Chemical Weapons Convention allocates seats in the Executive Council of the Organisation for the Prohibition of Chemical Weapons by region, designating a certain number for “States Parties with the most significant national chemical industry in the region.” Some other agreements, such as the Statute of the International Tribunal for the Law of the Sea, provide regions with minimum representation in certain bodies.630

The bloc voting system could grant individual members a greater influence and voice beyond their voting powers, though this somewhat decreases individual members control over a certain voting bloc. However, the enhancement of influence is especially beneficial to developing and emerging countries that demand to see a reflection in those international financial institutions in which they participate. In addition, the bloc voting system could also balance the interest of different groups and reach consensus without compliance issues. A more detailed discussion of the bloc voting system will be presented in later sections.

630 Id.
B. Three Factors of International Organizations and Their Corresponding Decision-Making Systems

Having examined thus far in this chapter a range of decision-making systems available to international institutions, I turn directly now to an exploration of, and answer to, the third of the key questions on which this dissertation turns. The following paragraph will discuss various aspects of a proposed new system of decision-making within the IMF.

To find out the reason why a certain international organization would adopt a specific decision-making system, it is necessary to look at specific characteristics of that international organization and its decision-making system. To do so, the following three factors of an international organization need to be examined: the size of the organization, the type of operations the organization engages in – and therefore the amount of potential interference it might present in the internal workings of its members – and relationships between the organization’s members.

i. Factor One: The Size of the Organization

The size of an international organization, or more precisely, the number of members of an international organization, determines in some substantial ways how members negotiate with each other. For a small organization, it is fairly easy to convene a conference of all members. The organization could respond promptly and perform effectively. It would be convenient to let each member express its opinion and participate in the discussion. It is also possible and feasible to take all members’ interests into account. Therefore, small organizations would focus more on individual member’s interest and sovereignty
protection. The fact that these member countries of small organizations have more opportunities to participate in the decision-making process also promotes sovereignty protection.

An example of a small organization such as the one I describe would be the Association of Southeast Asian Nations (ASEAN), which operates on the principle that no decision should interfere in a member country’s political and economic policies.\textsuperscript{631} This is sometimes also referred as the “ASEAN Way.\textsuperscript{632} The ASEAN’s fundamental principles expressly honor “the right of every State to lead its national existence free from external interference, subversion or coercion” and “non-interference in the internal affairs of one another.”\textsuperscript{633} By doing so, ASEAN avoids any possibility of interference in a member country’s sovereignty. In other words, ASEAN fully protects member countries’ sovereignty. None of the member countries surrender any sovereignty to the ASEAN and all members are only bound to decisions with their consent.

On the other hand, some large international organizations in the world have more than one hundred members. This large number of members makes it difficult to frequently organize a conference of all members. Also, members in large international organizations may find it more difficult to participate in the decision-making process than members of smaller organizations do. If a large international organization offers the same protections as small organizations to its members’ sovereignty and interest, it would take significantly more time to make a decision or reach consensus – if indeed any such outcome could ever be achieved. This would negatively affect the organization’s effectiveness. In order

\textsuperscript{631} The decision-making system of the ASEAN requires unanimous support of all member countries. See Association of Southeast Asian Nations website, \textit{Overview, available at} http://www.asean.org/asean/about-asean/overview.

\textsuperscript{632} \textit{Id.} See the “FUNDAMENTAL PRINCIPLES” section.

\textsuperscript{633} \textit{Id.}
to keep large international organizations operating effectively, large international organizations could not allow each individual member to retain veto power.

I conclude that – assuming away other factors (such as ones that are discussed below) – small international organizations are more likely to adopt the rule of unanimity because it is a decision-making system that provides full protection to member’s sovereignty. Larger international organizations would prefer other options in order to achieve effective performance because it would be difficult to reach agreement if a large number of members retain veto power. The IMF is a global organization with 188 member countries. It is one of the largest international organizations in the world. According to my first conclusion, the size of the IMF determines that it will not be able to work well under the unanimity rule.

ii. Factor Two: The Type of Operations the Organization Engages in

As noted earlier, international organizations have purposes and operations that vary widely. It is in this sense that I refer to the “type” of an international organization for these purposes. That is, the “type” of international organization determines and reflects the way it functions and how it interacts with its members. For example, early international organizations were mainly technical institutions. Their missions were to establish technical standards and to provide technical support to member countries. Their operation did not affect their member countries’ economic or political policies in any significant way. The member countries’ sovereignty was fully respected and protected. Also, technical institutions typically did not make urgent decisions. Even if they did not function well or perform effectively, there would be no severe consequences.

In contrast to technical institutions, an international financial institution has more involvement with member countries and its decisions often have direct
impact on a member country’s economy. First, the central function of many financial institutions, especially international ones, is to handle financial issues. For example, the IMF was set up to monitor the international monetary system according to its Articles of Agreement.634 Second, financial institutions often cooperate and interact extensively with various departments of member countries, such as central banks and financial ministries. Furthermore, financial institutions’ decisions are binding and enforceable because they need to manage member countries’ resources in order to stabilize the world economy. That also makes member countries’ economic circumstances, polices and performances more vulnerable to financial institutions’ decisions.

All these responsibilities require financial institutions to be extremely effective, so that they could promptly make decisions if necessary. In order to do so, financial institutions normally mandate that those countries wishing to join the institutions – to realize the benefits that they promise – must surrender parts of their sovereignty to these financial institutions and commit to be bound to the institutions’ decisions.

As a consequence, financial institutions’ member countries are more deeply exposed to the outcome of the institutions’ decisions. For some countries that contribute large amounts of financial resources, this is more serious because more of their funds and resources are directly affected by the organization’s performance.635 Therefore, they would demand a greater voting power in the organization to make sure their funds are properly used. Meanwhile, financial institutions also have to rely on these large contributors’ funds in order to perform operations. Financial institutions are also willing to allocate a larger voting power

634 See The IMF Articles of Agreement, Article I.
635 In other words, their funds are subjected to potential unsuccessful performance of institutions.
to countries based on their economic contribution. This is why it is more common 
for financial institutions to adopt weighted voting.

Furthermore, technical and financial organizations might be distinguished 
from a third type of organization – a political organization. In a range of ways, 
political organizations are different from technical institutions and financial 
institutions. On one hand, in a political organization, members would surrender 
even more sovereignty to the organization. For example, any country that signed 
the Schengen Agreement and joined Europe's borderless Schengen Area must 
abolish passport controls at its borders.636 Another example is the North Atlantic 
Treaty Organization (NATO). Most NATO member countries have agreed to 
have United States troops stationed in their territories.637 On the other hand, 
because a political organization would affect a member country on a much deeper 
level, member countries would prefer to retain veto power to protect their 
sovereignty at least in certain issues. In addition, members generally expect to be 
treated equally in political institutions. For instance, the EU’s standard decision-
making procedure, also known as “codecision”, requires approval from both the 
European Parliament and the Council consisting of the governments of the 27 EU 
countries.638 Both the Parliament and the Council have the right to block 
proposals.639 The EU has several decision-making rules for different issues, but 
basically all members receive equal treatment.

636 The Schengen Area countries are not the same as European Union countries. There are currently 
Twenty-two of the European Union (EU) member states and the four European Free Trade 
Association (EFTA) member states as of October, 2013. See European Commission Website, 
Schengen Area, available at http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/borders-
and-visas/schengen/.

637 United States Army, North Atlantic Treaty Organization, Welcome To USANATO, available at 

638 The European Union, How EU decisions are made, available at http://europa.eu/about-
eu/basic-information/decision-making/procedures/index_en.htm.

639 Id.
It is my assessment that financial institutions are more likely to choose a weighted voting system, which holds the prospect of making these financial institutions effective and better at taking their larger contributors – the major economy countries – into account in the decision-making process. On the other hand, political institutions are more likely to choose a decision-making system which better protects members’ sovereignty. In terms of the IMF, it is an international financial institution and relies on a handful of developed countries’ financial resources for its daily operation. Therefore, the IMF should not adopt the unanimity rule or the majority rule.

It is worth noting that the financial resources the IMF relies on have changed over time. Indeed, since the 1990s, the IMF started to mainly use the interest payments made on its loans to support its operation. In addition, emerging market countries, which used to seek financial assistance from the IMF, have recently started to provide financial resources to the IMF. In July 2012, China, Brazil and some other emerging-market countries pledged to provide funding to the IMF, helping to almost double the IMF’s lending ability to “protect the world economy from Europe’s debt turmoil.” It is now the case, then, that the IMF is no long reliant on a few developed countries’ funds for its operations.

However, this does not change the facts that the IMF is a financial institution and still relies on its member countries’ financial resources, though not the same major economy countries it used to rely on for these purposes. In addition, different member countries still contribute to the IMF differently. Therefore, the weighted voting system – although in need of a fundamental change – is still better suited to the IMF than unanimity rule and majority rule.

640 Blake & Payton, supra note 478, at 12.
iii. Factor Three: The Relationships between Members

The character of the relationships between members of an international organization also bears importantly on whether member countries have common interests and whether or not it would be easy for them to reach agreements in the organization.

For example, a regional institution, such as the Asian Development Bank, the Union of South American Nations, or the African Union, usually contains most of their member countries from a particular area. The Asian Development Bank has 67 members, 48 of which are from within Asia and the Pacific area.\textsuperscript{642} Likewise, there are currently 12 members in the Union of South American Nations, and all of them are located in South America.\textsuperscript{643} As most member countries of these regional institutions share similar geographic regions, they have more common interests or stakes than two random member countries of an international organization.\textsuperscript{644} Indeed, good relations with neighboring countries are important to any country and are considered a strategic policy in the international area.\textsuperscript{645} Any country, if possible, would seek closer ties with its regional, neighboring countries. It is true that two neighbor countries might have different religions, cultures, ethnic compositions, ideologies and economic development paces, but the fact that they share borders and common interest would given them strong incentives to engage in a wide range of multilateral

\textsuperscript{642} Asian Development Bank, \textit{Members}, available at http://www.adb.org/about/members.


\textsuperscript{644} Of course, this conclusion should not be applied to those non-regional members. For example, the Asian Development Bank’s non-regional member countries have very different interacts and stakes from those of the regional member countries.

\textsuperscript{645} Hassan Beheshtipour, \textit{Iran's Good and Constructive Relations with Neighbors}, IRAN REVIEW, (2012).
cooperation in many areas. Perhaps this is also the reason why so many countries in the same region form alliances to participate in the international community.

When countries have common interests, they are more likely to reach consent through negotiations. Therefore, many regional organizations choose consensus as their decision-making system. It is the same for those countries that have been influenced by similar traditions, cultures or other shared interests. For example, there are also many alliances based on traditions, cultures or other shared interests, such as the League of Arab State, the OPEC, and the Commonwealth of Nations. Because of the similar cultural background, member countries of these cultural organizations generally have similar perspectives and reactions to an issue. This makes it easier for them to reach an agreement based on consensus.

I conclude that member countries with similar backgrounds share common interests and tend to reach a consensus with each other. An organization consisting of member countries with similar backgrounds is more likely to reach agreements than an organization consisting of member countries having diverse or even conflicting interests. The IMF’s membership is diverse and there have always been conflicting interests between the debtor countries and creditor countries. Because of these conflicting interests, the IMF makes most decisions,

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647 The League of Arab State (The Arab League) is a regional organization of Arab countries. See The Arab League website, About Us, available at http://www.lasportal.org. The OPEC is an intergovernmental organization of oil-producing countries. See the OPEC website, About Us, available at http://www.opec.org/opec_web/en/17.htm. The Commonwealth of Nations, also known as the Commonwealth, is an organization of 53 members that were mostly former British territories. See the Commonwealth website, About Us, available at http://thecommonwealth.org/about-us.

in practice, via consensus. If the IMF were divided into several small groups based on member countries’ common interests, it would be much easier for those member countries to reach consent within each group and therefore make decisions for the IMF.

C. Restoring Good Governance

I have already discussed Ngaire Woods’ good governance theory and principles and concluded that the IMF – with the weighted voting system and the consensus approach – fails to meet the good governance requirement. Here, I will explain why the bloc voting system, compared to other decision-making systems, can better ensure that the IMF can be restored to good governance.

i. Satisfying the Participation Principle

The good governance principle, as discussed in the previous chapter,\(^\text{649}\) requires that a member country should not only have the rights to be involved in the decision-making process, but also be able to acquire a meaningful stake in the decision-making process.\(^\text{650}\) Under the unanimity rule, each member country has veto power to ensure its participation in the decision-making process. Majority rule, in conjunction with a “one state, one vote” principle, is enough to guarantee a member country’s participation because the member’s voting power is equal to other members. In the weighted voting system, however, because memberships are not equal, a member country needs to obtain a significant amount of voting

\(^{649}\) See supra text Chapter Two, II.

\(^{650}\) Woods, supra note 178, at 44.
power to ensure its participation in the decision-making process. In the consensus-building process, a member needs to make extra effort to exert its influence in order to make sure of its participation in the negotiation process.

Under the bloc voting system, the importance of individual voting is minimized because it is no longer the voting power of a single member country that counts, but rather the voting bloc or group as a whole. The developing countries no longer need to fight for the quota assignment as individual countries. Member countries cooperate together based on common interests and form groups. In this way, they are able to combine their voting power together and have a significantly greater voice, both in the negotiation for the consensus building and in the formal voting procedure.

ii. Satisfying the Accountability Principle

Recall that in Chapter Two, I explained that Woods defines accountability in international organizations as depending on a clear identification of “for whom or on whose behalf the institution is making and implementing decisions.” To be accountable to its member states, an organization should decide how the accountability should be apportioned. There are many ways to do so, including by the member countries’ economic weight, by their population size, or according

651 Zamora, supra note 477, at 602. Of course, an individual country’s voting power might either increase or decrease after joining in a voting bloc. Leech & Leech point out that “a country which, as a member of a global organisation, gives up its independence in certain matters within the organisation, in order to join a powerful bloc, may gain or lose power. The bloc will be more powerful than the country could be by itself because of its greater size, but the country has only limited power over decisions taken by the bloc’s members about how it should vote in the global organisation. The country’s power, as a member of the bloc, is a compound of these two factors…Belonging to a large party group both enhances and constrains a member’s power - the larger it is the more powerful but the less control any member has over its decisions.” Dennis Leech & Robert Leech, Voting Power and Voting Blocs, PUBLIC CHOICE 127, 296 (2006).
652 Id.
653 Id.
to which members are most affected by the organization’s policies, etc.\textsuperscript{654} In terms of the IMF, it needs to consider all these aspects in order to balance the interests among member countries and perform its financial obligations. After all, the IMF has a double characteristic – that it is an inter-governmental organization and a financial institution.\textsuperscript{655}

Under the current weighted voting system, the IMF is controlled by a handful of powerful developed countries. As a result, it is difficult for the IMF to be accountable. It is true that the IMF makes most decisions based on consensus, which makes it more accountable to the member countries. However, the consensus approach also has its shortcomings and is not perfectly accountable as discussed earlier.\textsuperscript{656} Suppose the IMF had adopted the unanimity rule or the “one state, one vote” majority rule. In that case, most member countries would have more voting powers – every individual member country’s voting power would be the same because of the “one state, one vote” principle. Therefore, each developing country would obtain a greater voice and have larger influence on the IMF’s decisions. This would make the IMF more accountable to the majority of its member countries. However, the IMF also needs to be mindful of the need to balance its member countries’ interests and its financial performance. Neither the unanimity rule nor the majority rule could ensure the IMF’s ability to do so, since those approaches do not take member countries’ economic contribution into account.

\textsuperscript{654} \textit{Id.} There may be other ways to do so, subject to what the organization is. For example, for International Coffee Organization, which mainly handles international coffee trade, the accountability should be apportioned by member countries’ role in the coffee trade, such as consuming, distributing, and producing coffee.

\textsuperscript{655} See supra text accompanying notes 76, 77, and 78.

\textsuperscript{656} I have discussed this issue in previous sections, see supra text accompanying notes 577, 578, and 579. During the consensus building process, countries that were affected by the decision may be excluded – that is, kept outside of these group meetings. It is highly possible that powerful countries take advantage of bilateral pressure and include only some certain countries in their consensus decision-making process.
The bloc voting system is able to reflect a range of stakes and balance of interests in the IMF. In addition, it is able to adapt when those stakes change. For example, when a financial package is under discussion, the IMF’s member countries can be divided into groups of debtor countries and creditor countries to participate in the decision-making process, express opinions, and give advice. Therefore, those most affected by the IMF’s decision – the debtor countries – and those who contribute the most financially to the IMF – the creditor countries – all have equal voice in the decision-making process. Moreover, because the borrower countries group and creditor countries group were treated equally in the decision-making process, creditor countries – countries that do not have to live with the consequence of the decision – could no longer freely make decision for the debtor countries, which allows the debtor countries to maintain sustainability and work toward long term development. Under the bloc voting system, the IMF would hold both groups accountable for their decisions. Indeed, by adopting the bloc voting system, the IMF would satisfy the accountability principle and achieve an appropriate balance of stakes held by all member countries, including members who contribute financial resources, members whose compliance is required for the IMF to be effective, and member who are affected most by the IMF’s decisions.

iii. Satisfying the Effectiveness Principle

A good decision-making system would ensure the effectiveness of an international financial institution, and it is my opinion that the bloc voting system could enhance the IMF’s effectiveness. Recall that in Chapter Three I asserted

657 Gianaris, supra note 374, at 14. Here, both groups refer to debtor countries group and creditor countries group.

658 Woods, supra note 178, at 53.
that two factors need to be examined for the IMF’s effectiveness – namely, (1) efficiency and (2) crisis management and prevention.

The efficiency issue might not be problematic a century ago, when countries did not have much interaction and the global economy was not integrated.\textsuperscript{659} In the modern world, though, the global economy has been closely integrated and no country can be immune from globalization.\textsuperscript{660} International financial institutions are facing a dynamic and fast-paced environment. They must analyze uncertain economic issues and handle various financial regulations in a short time, if not immediately. Indeed, international financial institutions need to be able to promptly react to any possible market crisis and urgent financial aid request in the world.

However, the IMF’s consensus approach would usually take a long time before parties could reach final agreement on such matters, especially in cases where member countries have conflicting interests or have many items to discuss. Under unanimity rule, because all members have veto power, it would be difficult to reach agreements in a short period. International organizations adopting majority rule and the weighted voting system are more efficient, but may have compliance problem. It is also difficult to reach agreements among all members of an organization at the same time.

If the IMF were to adopt the bloc voting system, it would greatly enhance the organization’s efficiency. The IMF’s member countries would be divided into groups, or voting blocs, based on their common interests. As stated above, it is easier and faster to reach agreements within these voting blocs. By first reaching

\begin{footnotesize}
\begin{enumerate}
\item Even in some rare cases that an international organization took months or even years to make a decision, there would not be severe negative consequences. Most countries were self-sufficient without interaction from international organizations.
\item For example, the United States subprime mortgage crisis caused a depression of both the United States and European economies. Another example is this: when the U. S. was attacked in September 2001, the whole world’s stock market dramatically declined in a short time.
\end{enumerate}
\end{footnotesize}
consensus within each voting bloc, the IMF also reduces conflicts and makes it easier to reach a final agreement between all voting blocs.

In addition, the bloc voting system would allow each voting bloc to identify the most important items for members of that voting bloc. For a discussion that includes all of the IMF’s member countries, each member country may prioritize one item as most important. Thus, it is hard and time consuming to negotiate all these important items for all members simultaneously. By dividing the IMF member countries into small voting blocs, each voting bloc may identify different items as that voting bloc’s priority. In this way, a large list of items would be reduced to a manageable list of fewer items. Furthermore, it would be easier to reach agreement in a short span of time, assuming there would be a long list to negotiate.

As for the second factor – crisis management and prevention – I have concluded that the IMF does not satisfy the international community’s expectations of its performance regarding crisis management and prevention. Indeed, the IMF needs to rely on its member countries to implement its recommendations for financial and monetary policies. Recently, many IMF member countries are hesitant to do so because they do not agree with the IMF recommendations and believe that these recommendations are in the interests of the handful countries that control the IMF. If the IMF were to adopt the bloc voting system, then these countries would be more willing to implement IMF recommendations because they would have more sense of ownership in the IMF via the voting bloc – they have a much bigger voice and influence in the decision-making process. This would improve the IMF’s crisis management and prevention ability.

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662 See supra text accompanying note 430.
D. The Voting Bloc Antecedents

Although the bloc voting system has not been officially adopted by any major international financial institution, there are some antecedents of grouping countries that the IMF can learn from. These antecedents also illustrate the possibility that the IMF could adopt the bloc voting system.

First, outside the IMF, some international organizations have divided their member countries into groups for decision-making purposes. For example, as noted earlier, the membership of the International Fund for Agricultural Development (IFAD) is classified into three lists and three sub-lists based on geographic regions and member countries’ state of the economy. The IFAD’s unique governance structure has been working well over the past decades. An assessment shows that IFAD has “a sound framework for monitoring and evaluation”, and its governing body is “effective in guiding management and acts promptly.”

It is worth noting that the IFAD had faced some pressure to make internal changes, because the balance of its member countries’ stake has greatly changed since the 1970’s when it was founded. Now the state of the global economy has changed and the member countries have expressed a desire that the governance structure also reflect such a change. The voting blocs of the IMF should not be

663 I listed three illustrative examples in Chapter Four, Section IV.
664 For a brief account of the IFAD and its member countries lists, see supra text accompanying notes 611 to 624.
667 Id.
fixed as in the IFAD, so that the IMF could keep a stable governance structure that constantly reflects member countries’ changing stakes.

Second, inside the IMF, a practice of grouping the IMF member countries has already existed for decades, as in the Executive Board. This national grouping is the constituencies of the Executive Board, which I have introduced in Chapter One. Currently, eight member countries have their own Executive Directors representing their countries. The rest of the IMF member countries form 16 constituencies to elect 16 Executive Directors. Therefore, the grouping method is only for the purpose of electing executive directors and does not have any regional or other restrictions. Although such a grouping is not for the purpose of the IMF decision-making process, it still sets a precedent and shows that the IMF member countries have the capacity to negotiate in groups.

This “one constituency, one voice” has proven to work well under the IMF framework. An Executive Director represents a group of member countries and each group must have only one voice in the Executive Board. Therefore, if a conflict arises within the constituency, the Executive Director would have to reach some form of consensus within the constituency before he or she casts his or her vote on behalf of the constituency. There is no official rule regulating the decision-making process within a constituency. In most cases, the constituency would follow the voice of the country with the largest quota in that group, from which the constituency’s executive director is elected. This method greatly

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668 Gianaris, supra note 374, at 926.
669 See supra text accompanying notes 117 to 135.
670 These eight member countries are the United States, Japan, Germany, France, the United Kingdom, China, Russia, and Saudi Arabia. The first five are automatically entitled to appoint an Executive Director. The later three can elect an Executive Director as a single-country constituency, thus the Executive Director is obviously from that country.
671 Gianaris, supra note 374, at 926.
accelerates the process required to reach consensus in the IMF’s Executive Board deliberations, since it reduces 188 voices down to 24 in the Executive Board.\textsuperscript{673}

In addition, the IMF’s member countries have long formed alliances, usually on a regional basis, voting for the purpose of defeating other member countries’ position.\textsuperscript{674} In many votes, most developed countries took the same position because of common interest.\textsuperscript{675}

In summary, the IMF’s member countries have been voting as groups for a long time, and thus it would be feasible for the IMF to formally adopt the bloc voting system as a formal voting rule. The IMF should find it easier to reach consensus if the number of different voices could be further reduced. Further information will be presented in the next few sections.

\section*{V. The Bloc Voting System}

The bloc voting system that I propose to the IMF has a unique structure – voting blocs. In this section, I will explain how the IMF would determine, adjust, and implement the voting blocs.

First, there would be two sets of voting blocs – “econ blocs” and “regional blocs” in this bloc voting system.\textsuperscript{676} The econ blocs would be based on the state of the economy in each of the member countries. The regional blocs would be based on the geographic region and cultural tradition of each of the member countries.

\begin{footnotesize}
\begin{enumerate}
\item Charnovitz, supra note 672, at 183.
\item ALEXANDER THOMPSON & DUNCAN SNIDAL, INTERNATIONAL ORGANIZATIONS 55 (1999).
\item These two sets of voting blocs will be created by an amendment of the Articles of Agreement.
\end{enumerate}
\end{footnotesize}
The first two sets of voting blocs would be determined by an amendment to the Articles of Agreement. There would be four econ blocs and six regional blocs.  

Second, voting blocs’ member countries would be adjusted on a yearly basis. The bloc voting system would be flexible. Indeed, the world’s economic pattern is dynamic and keeps evolving all the time. Under the current weighted voting system, many IMF member countries argue that their voting power does not match their real economic power in the world. Yet, a fixed quota assignment would never perfectly solve the issue, despite that the IMF reviews the quota assignment every five years. Each year, member countries could submit a request to be reassigned into a different voting bloc. The Executive Board would consider these reassignment requests at the annual meeting and make its best judgment based on the previously stated criteria that determine voting blocs, the specific issues that may arise before the Executive Board in the coming year, and whether the adjustment would put the member into a voting bloc consisting of countries that have common interests. The Executive Board retains the power on whether to grant such an adjustment request or not.  

Third, a formal voting will be held only if members cannot reach consensus through voting blocs. When a vote is needed, the Executive Board would first determine whether it is a financial issue, or a non-financial issue. Most of the time, it would be a financial issue because the IMF is a financial institution, so the Executive Board should apply the econ blocs, and have the member

677 For a more detailed account of the econ blocs and regional blocs, see supra text accompanying notes 686 to 690.
678 See supra text accompanying notes 373 to 390.
679 See supra text accompanying notes 66, 67, and 68.
680 Member countries could request to switch to a different econ bloc or regional bloc.
681 Even if the IMF shortens its five-year interval between two general quota reviews, the IMF would still find it difficult to permanently increase or decrease a member country’s quota. This is because every member would prefer to have as much quota as possible. It would be much easier to adjust a member’s voting bloc assignment than to permanently adjust its quota.
countries vote accordingly. In case it is a non-financial issue, the Executive Board should apply the regional blocs, and have the member countries vote accordingly. If an issue involves both financial and non-financial factors, the Executive Board should apply the econ blocs if it determines the major aspect is financial. Likewise, if the Executive Board determines the major aspect is non-financial, the regional blocs would be applied.

Four, the bloc voting system would feature a two-step voting process instead of the IMF’s current single-step voting process. In the first step, member countries would need to reach agreements within their respective voting blocs. Given the fact that the IMF is an international financial institution engaging in financial transactions and is mainly funded by a few major economic power countries, voting blocs would use the weighted voting method for their decision-making. In addition, to minimize resistance to the bloc voting reform, all member countries should be allowed to retain their current voting power to participate in the decision-making process within each voting bloc. Of course, if member countries of a voting bloc could reach a consensus without a formal vote, they could do so as they see fit.

It is worth noting that those major issues that currently require a special majority of the total voting power as stated in the IMF Articles of Agreement would require a special majority be achieved within a particular voting bloc in order for that voting bloc’s bloc vote to be cast in favor of a proposal. For example, for proposals such as the admission of new members or increases in quotas, an 85 percent majority must be achieved within a particular voting bloc in order for that bloc’s vote to be cast in favor of the proposal.

682 This makes the IMF similar to a market-based financial organization. See BRADLOW & HUNTER, supra note 48, at 1.

683 For a list of “special majority requirements” in the IMF Articles of Agreement, see supra text accompanying notes 96, 97, and 98.
In the second step, after each voting bloc reaches agreement, all voting blocs would convene to cast votes to make a final decision for the IMF. For this second step, I propose that the IMF split the votes equally among all voting blocs and adopt the majority rule for this decision-making process. All voting blocs should have equal voting power, which would require an adoption of a “one bloc, one vote” rule. In the bloc voting amendment, this vote should be called a bloc vote. The different voting power of member countries has already been taken into account and the number of different positions on the issue has been reduced in the first step. As a result, there would not be as many compliance problems in adopting the majority rule for the bloc vote. At times when a bloc vote is equally divided, the Managing Director may cast a vote to break the tie.

Having explained how the bloc voting system would work, this section now turns to the two sets of voting blocs – the econ blocs and the regional blocs.

A. Econ Blocs – Voting Blocs Based on the State of the Economy

Voting blocs based on the state of the economy in each of the member countries would probably be the most common grouping in the bloc voting system, because of the IMF’s character as an international financial institution, and most of the issues discussed in the IMF are financial issues. Based on the state of the economy, the IMF’s membership could be divided into four econ blocs, including: Voting Bloc One (a developed countries voting bloc), Voting Bloc Two (a developing countries and emerging market economy voting bloc), Voting Bloc

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684 This is because voting blocs would use the weighted voting method to reach agreement within these voting blocs.

685 This is because voting blocs are determined based on member countries’ common interests. There may be, however, different positions of different voting blocs.

Three (a least developed countries voting bloc) and Voting Bloc Four (a heavily indebted countries voting bloc). This grouping method would be similar to the IFAD’s membership list. These four econ voting blocs would reflect the balance of economic power in the world and reduce conflicts between countries with similarities in their economic development, assuming that countries with similar economic development paces would have similar positions in the IMF activities.

In addition, the IMF could have a clearer view of the demands of the creditor countries and the commitments of the borrower countries when making decisions regarding providing loans. This is because generally speaking Voting Bloc One includes member countries that financially contribute to the IMF on a constant basis, Voting Bloc Three includes member countries that regularly need the IMF’s financial support, and Voting Bloc Four includes those heavily indebted countries that constantly need the IMF’s financial aid.

As noted earlier, the membership in each bloc could be adjusted on a yearly basis. For example, suppose Turkey makes tremendous progress in economic and financial development in 2016. Turkey no longer sees the necessity to borrow from the IMF, and submits a request to the IMF to reassign it into

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687 For a complete list of member countries of the econ blocs, see Table C Econ Bloks Assignments in 2017. Of course, another approach to take would be to have five (or some other odd number of) econ blocs in order to reduce the likelihood of any tie arising that would require action by the Managing Director. However, classifying countries into the above four groups is a more common method that has previously been used by the World Bank and the United Nations. Using an odd number could introduce other issues or problems, such as a possible domination by the debtor countries in the bloc vote, because there would likely be three econ blocs consisting of member countries with stronger economies and two econ blocs consisting of member countries with weaker economies. However, the number of econ blocs or regional blocs is not the determining factor of this proposal.

688 The IFAD’s membership is classified into three lists and three sub-lists, including OECD members (developed countries), OPEC members (oil exporting countries), and developing countries. For a brief account of the International Fund for Agricultural Development (IFAD) membership lists, see supra notes 611, 612, and 613.
Voting Bloc One. The Executive Board reviews the request by predicting what specific issues might come up in the next year on which bloc voting might be undertaken, and considering other member countries’ opinions on this request. After careful reviews, the Executive Board grants the request. Therefore, Turkey is assigned into Voting Bloc One in 2017.

Table A is a hypothetical illustration of member countries’ assignments to the econ blocs between the years 2015 and 2017.

Table A    The IMF Econ Blocs 2015 - 2017

<table>
<thead>
<tr>
<th>Year</th>
<th>Voting Bloc One</th>
<th>Voting Bloc Two</th>
<th>Voting Bloc Three</th>
<th>Voting Bloc Four</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Austria, Canada, United States, etc.</td>
<td>Brazil, China, Turkey, etc.</td>
<td>Egypt, Philippines, Vietnam, etc.</td>
<td>Congo, Haiti, Uganda, etc.</td>
</tr>
<tr>
<td>2016</td>
<td>Austria, Canada, United States, etc.</td>
<td>Brazil, China, Turkey, etc.</td>
<td>Egypt, Philippines, Vietnam, etc.</td>
<td>Congo, Haiti, Uganda, etc.</td>
</tr>
<tr>
<td>2017</td>
<td>Austria, Canada, United States, Turkey, etc.</td>
<td>Brazil, China, etc.</td>
<td>Egypt, Philippines, Vietnam, etc.</td>
<td>Congo, Haiti, Uganda, etc.</td>
</tr>
</tbody>
</table>

B. Regional Blocs – Voting Blocs Based on Geographic Regions and Cultural Traditions

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690 This table meant only for illustrative purposes and does not list all member countries of each voting bloc. Also noting that Turkey is reassigned into Voting Bloc One in 2017. A more complete list could be found in Chapter Four, VII, A.
The second set of the voting blocs would be regional blocs, which is based on each member country’s geographic regions and cultural traditions. The IMF membership could be divided into six regional blocs as follows: Voting Bloc One would include African countries such as Botswana, Congo, South Africa, and Ghana. Voting Bloc Two would include Latin American countries such as Argentina, Bolivia, Brazil, Colombia, and Peru. Voting Bloc Three would include Asian countries such as China, Japan, India, and Malaysia. Voting Bloc Four would include North American countries. Voting Bloc Five would include European countries and Voting Bloc Six would include Oceanic countries.

Although the IMF primarily focuses on financial issues, over the past few years, the IMF has been promoting some programs which involve policy-based lending and technical assistance, in some member countries. For example, in 2010, the IMF started a program to help 16 countries in sub-Saharan Africa “to strengthen their defenses against money laundering, smuggling, and terrorist financing” in order to crack down on the illicit diamond trade in Africa.\(^{691}\) In a program like this, the IMF has not only cooperated with the member countries’ central banks and finance ministries, but has also involved some other relevant government departments of those countries, such as those focusing on intelligence, customs, and mining.\(^{692}\) Therefore, the IMF would need to focus on many factors in addition to economic factors, including cultural values and attributes in countries in which the IMF wishes to implement its programs. This is because the IMF programs themselves often involve issues beyond economic and financial policies and touch also on the local culture.

In addition, many countries in a particular region typically have achieved a similar stage of economic development. Interests based on a common border are


\(^{692}\) Id.
essential and would give these neighboring countries strong incentives to engage in a wide range of multilateral cooperation in many areas.\textsuperscript{693}

Table B is a hypothetical illustration of member countries’ assignments to the regional blocs between the years 2015 and 2017.\textsuperscript{694}

<table>
<thead>
<tr>
<th>Year</th>
<th>Voting Bloc One</th>
<th>Voting Bloc Two</th>
<th>Voting Bloc Three</th>
<th>Voting Bloc Four</th>
<th>Voting Bloc Five</th>
<th>Voting Bloc Six</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>Algeria, Congo, Ghana, South Africa, Uganda, Zambia, etc.</td>
<td>Argentina, Bolivia, Brazil, Colombia, Ecuador, Paraguay, Peru, etc.</td>
<td>China, India, Japan, Korea, Malaysia, Singapore, Thailand, Vietnam, etc.</td>
<td>United States and Canada.</td>
<td>Belgium, Denmark, France, Hungary, Italy, Spain, Germany, United Kingdom, etc.</td>
<td>Australia, New Zealand, Papua New Guinea, etc.</td>
</tr>
<tr>
<td>2016</td>
<td>Algeria, Congo, Ghana, South Africa, Uganda, Zambia, etc.</td>
<td>Argentina, Bolivia, Brazil, Colombia, Ecuador, Paraguay, Peru, etc.</td>
<td>China, India, Japan, Korea, Malaysia, Singapore, Thailand, Vietnam, etc.</td>
<td>United States and Canada.</td>
<td>Belgium, Denmark, France, Hungary, Italy, Spain, Germany, United Kingdom, etc.</td>
<td>Australia, New Zealand, Papua New Guinea, etc.</td>
</tr>
<tr>
<td>2017</td>
<td>Algeria, Congo, Ghana, South</td>
<td>Argentina, Bolivia, Brazil, Colombia,</td>
<td>China, India, Japan, Korea,</td>
<td>United States and Canada.</td>
<td>Belgium, Denmark, France, Hungary,</td>
<td>Australia, New Zealand, Papua</td>
</tr>
</tbody>
</table>

\textsuperscript{693} Richard L. Sneider & Mark Borthwick, \textit{Institutions for Pacific Regional Cooperation}, 23 \textit{ASIAN SURVEY} 12, Perspectives on the Pacific Community Concept, 1245, 1253 (1983).

\textsuperscript{694} This table meant only for illustrative purposes and does not list all member countries of each voting bloc.
VI. Proposed Amendment to the Articles of Agreement Regarding the
Bloc Voting System

As discussed previously, adopting the bloc voting system would be a major change to the Articles of Agreement that would require an amendment. In this section, I present some illustrative excerpts of the proposed amendment to the IMF Articles of Agreement regarding the bloc voting system (the bloc voting amendment). Boxes 1 and 2 contain illustrative texts of the changes to some sections of the Articles of Agreement under the proposed bloc voting amendment.695

Box 1. Illustrative New Text of Article XII, Section 5

| Africa, Uganda, Zambia, etc. | Ecuador, Paraguay, Peru, etc. | Malaysia, Singapore, Thailand, Vietnam, etc. | Italy, Spain, Germany, United Kingdom, etc. | New Guinea, etc. |

Article XII, Section 5. Voting
(a) The total votes of each member shall be equal to the sum of its basic votes and its quota-based votes.

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

   (ii) The quota-based votes of each member shall be the number of votes

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695 I use “strikethrough” to illustrate the clauses in the current Articles of Agreement that should be abrogated. I use “bold” to show the clauses that should be added into the current Articles of Agreement. Similar illustrations are also provided in Box 2 and Box 3.
that results from the allocation of one vote for each part of its quota equivalent to one hundred thousand special drawing rights.

(b) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (a) above adjusted

(i) by the addition of one vote for the equivalent of each four hundred thousand special drawing rights of net sales of its currency from the general resources of the Fund up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand special drawing rights of its net purchases under Article V, Section 3(b) and (f) up to the date when the vote is taken, provided that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

(e) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

(c) Members are divided into voting blocs for the purpose of voting. The Executive Board shall arrange members to vote through voting blocs on the voting issue, as outlined in subsection (d) and (e).

(d) There shall be two sets of voting blocs. Four econ blocs shall be created based on the state of economy in each member; six regional blocs shall be created based on geographic region and cultural tradition in each member.

(e) For decisions regarding financial issues which shall be made by vote, the Executive Board shall arrange members to vote through econ blocs; for decisions regarding non-financial issues which shall be made by vote, the Executive Board shall arrange members to vote through regional blocs; for decisions regarding both financial and non-financial issues, the Executive Board shall arrange the voting based on the major aspect of the issue.

(f) Each year, the Executive Board shall review the voting bloc assignments and announce the voting bloc assignments for the following year. Each member may submit requests to the Executive Board to be reassigned to another voting bloc ninety days prior to the date that the Executive Board reviews the voting bloc assignments. The Executive Board shall retain the right to grant or reject such requests.

(g) A formal vote will be held only if members cannot reach consensus through voting blocs. Whenever a vote is required, each member shall first vote within its voting bloc. Each member shall have the number of votes to which it is entitled under subsection (a). Except as otherwise specifically provided, a simple majority must be achieved within a particular voting bloc in order for that voting bloc’s bloc vote to be cast in favor.
(h) After each voting bloc reaches agreement, a final vote, which shall be called a bloc vote, shall be cast by all voting blocs. Each voting bloc shall have one bloc vote.

(i) All decisions of the Fund shall be made by a simple majority of the total bloc votes. At times when a bloc vote is equally divided, the Managing Director may cast a vote to break the tie.

Box 2. Illustrative New Text of Article III, Section 2(c). Adjustment of quotas

(c) An eighty-five percent majority of the total voting power shall be required for any change in quotas. An eighty-five percent majority must be achieved within a particular voting bloc in order for that voting bloc’s bloc vote to be cast in favor for any change in quotas.

**VII. Hypothetical Cases under the Bloc Voting System**

This section provides some hypothetical cases that the IMF may face under the bloc voting system. These hypothetical cases show how the IMF would make a decision if the bloc voting amendment were adopted.

A. Hypothetical Case One: The 2017 Thailand Financial Crisis

Beginning in 2017, two decades after the Asian Financial Crisis, Thailand’s current account deficit widens to six percent of its national GDP, while

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696 These cases are purely hypothetical. All stances taken in the cases within this section are meant only for illustrative purposes.
the growth rate for exports slows down to ten percent. Thailand’s foreign debt increases to 100 billion U.S. dollars, most of which is short-term.

In the following year, despite government bailout efforts, ThaiBank, a hypothetical large bank in Thailand goes into bankruptcy, resulting in massive unemployment and a shock to the Thai stock market. As people in Thailand panic about this financial crisis, they begin to withdraw cash from the banking system and convert it into U.S. dollars or gold. As the financial crisis mounts, the stock markets of neighboring Asian countries start to falter as well. The Thai Government decides to request a stand-by arrangement from the IMF to prevent this national financial crisis from deteriorating further.

The IMF Executive Board receives the letter of intent from the Thai government, and believes that this is an urgent issue that needs immediate attention. Because a severe financial crisis in a single country could develop into a regional, or even a global, financial crisis, the IMF Executive Board proposes a stand-by arrangement with exceptional access of 300 percent of quota (equivalent to SDR 4321.5 million or about 6585 million U.S. dollars\textsuperscript{697}) for Thailand, as vested by the Articles of Agreement, Article V Section 3 (a).\textsuperscript{698} This stand-by arrangement requires the government of Thailand to commit to a set of conditions in the exchange rate, monetary and financial, and fiscal areas. These conditions include:

a) A temporary tightening of Thailand’s monetary policy;

b) A closure of unviable financial institutions;

\textsuperscript{697} Hypothetically, 1 SDR equals 1.52377 U.S. dollar.

\textsuperscript{698} IMF Articles of Agreement, Articles V, Section 3 (a). “The Fund shall adopt policies on the use of its general resources, including policies on stand-by or similar arrangements, and may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund.” Id.
c) A structural reform of Thailand’s economic system;
d) An increased foreign participation in Thailand’s financial market;
e) An improvement of Thailand’s financial market by separating business and the Thai government.

Most IMF member countries realize that there is a need to offer loans to Thailand, but disagree on the necessity of, and the specific contours of, the above-listed conditions. Therefore, to effectively respond to the mounting financial crisis in Thailand, the IMF Executive Board calls for a vote on this issue.

The Executive Board refers to the “Econ Blocs Assignment in 2017” and arranges member countries to vote through the voting blocs accordingly, for the purpose of discussing the issue of providing a financial aid package to Thailand. Table C illustrates a complete voting bloc assignment for case one.

1. Voting Bloc One includes the United States, the United Kingdom, Germany, Japan, and other developed countries that financially contribute to the IMF on the constant basis;
2. Voting Bloc Two includes Angola, Albania, Algeria, and other developing countries that occasionally need the IMF’s financial support;
3. Voting Bloc Three includes Armenia, Bhutan, Bolivia, Cameroon, and other least developed countries that constantly need the IMF’s financial aid;
4. Voting Bloc Four includes countries Afghanistan, Bangladesh, Benin, and other heavily indebted countries that desperately need the IMF’s financial aid.
### Table C  Econ Blocs Assignments in 2017

<table>
<thead>
<tr>
<th>Voting Blocs</th>
<th>Member Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voting Bloc One</td>
<td>Austria, Australia, Belgium, Canada, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Malta, Netherlands, Norway, New Zealand, Poland, Portugal, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States</td>
</tr>
<tr>
<td>Voting Bloc Two</td>
<td>Angola, Albania, Algeria, Argentina, Azerbaijan, Belize, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, China, Chile, Colombia, Costa Rica, Dominica, Dominican</td>
</tr>
</tbody>
</table>

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700 Voting Bloc One includes developed countries that have income over $12,616 (Hereinafter, income refers to “gross national income per capital” in this section). See the World Bank, *How we Classify Countries*, available at http://data.worldbank.org/about/country-classifications. However, the Executive Board would consider other factors, such as GDP, economic variability, and international reserves when assigning member countries into voting blocs.

701 Voting Bloc Two includes emerging and developing countries that have upper middle income from $4,086 to $12,615. See Id. The IMF also defines them as “emerging and developing economies.”
| Voting Bloc Three<sup>702</sup> | Armenia, Bhutan, Bolivia, Cameroon, Cape Verde, Côte d'Ivoire, Djibouti, Egypt, El Salvador, Georgia, Ghana, Guatemala, Guyana, Honduras, Indonesia, India, Kiribati, Kosovo, Lao, Lesotho, Mauritania, Micronesia, Moldova, Mongolia, Morocco, Nicaragua, Nigeria, Pakistan, Papua New Guinea, Paraguay, Philippines, Samoa, São Tomé and Principe, Senegal, Solomon Islands, Sri Lanka, Sudan, Swaziland, Syrian Arab Republic, Timor-Leste, Ukraine, |

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<sup>702</sup> Voting Bloc Three includes countries that have lower middle income from $1,036 to $4,085.
<table>
<thead>
<tr>
<th>Voting Bloc One</th>
<th>Voting Bloc Four</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uruguay, Uzbekistan, Vanuatu, Vietnam, Yemen, Zambia</td>
<td></td>
</tr>
<tr>
<td>Afghanistan, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Comoros, Congo, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Haiti, Kenya, Kyrgyz Republic, Liberia, Madagascar, Malawi, Mali, Mozambique, Myanmar, Nepal, Niger, Rwanda, San Marino, Sierra Leone, Somalia, South Sudan, Tajikistan, Tanzania, Togo, Trinidad and Tobago, Uganda, Zimbabwe</td>
<td></td>
</tr>
</tbody>
</table>

According to the bloc voting amendment, each member must first vote within its voting bloc. During this first step of voting, members express their opinions and negotiate with each other to reach consensus within their voting blocs.

Regarding the issue of providing financial assistance to Thailand, in Voting Bloc One, all member countries support the stand-by arrangement and its conditions. In Voting Bloc Two, China asserts that no loan should be given to Thailand at all since Thailand started a diplomatic relationship with Taiwan in 2015, while Brazil and Mexico insist that voting bloc’s priority goal should be removing condition a (a temporary tightening of monetary policy) and condition c

703 Voting Bloc Three includes countries that have low income for $1,035 or less.
(a structural reform of Thailand’s economic system), rather than object to the whole stand-by arrangement. In Voting Bloc Three, Vietnam believes that condition b (a closure of unviable financial institutions) and condition c should be removed from the stand-by arrangement. In Voting Bloc Four, many countries, such as and Kenya, seeing the possibility that they may be in need of a similar financial aid package in coming years, suggests that the loan should be offered to Thailand without any condition.

In the negotiation process, because Voting Blocs Two, Three and Four all express their concern about the condition c (a structural reform of Thailand’s economic system), fearing that this condition may negatively affect Thailand’s ability to handle the financial crisis. Based on this common consensus of majority voting blocs, the Executive Board revises the proposal and removes this condition from the stand-by arrangement.

All four voting blocs then start to negotiate to reach consensus on this revised proposal. Voting Bloc One reaches a consensus to support this revised proposal. In Voting Bloc Two, China insists on its position in spite of the fact that most member countries in Voting Bloc Two would support providing financial aid to Thailand. Voting Bloc Two casts a weighted vote, and decides to support this proposal. Voting Bloc Three insists on removing all conditions attaching to the loan, reaching a consensus to vote against this proposal. Voting Bloc Four supports this proposal because most countries in Voting Bloc Four desperately need financial aid from the IMF due to their foreign debts.

In the second step of the bloc voting process, a bloc vote is cast. Voting Bloc One, Two and Four vote in favor while Voting Bloc Three votes against. The proposal obtains the majority of the bloc votes and passes. Thailand will receive a SDR 4321.5 million financial package with revised conditions. The stock market in Thailand starts to climb as soon as this stand-by arrangement is approved under
the bloc votes. The IMF brings not only financial aid, but also confidence to the people in Thailand.

B. Hypothetical Case Two: The 2020 Anti-Money Laundering Project

In 2018, some terrorist organizations in the Middle East secretly execute precious material trades in several less developed countries in Africa, South East Asia, and South America. The trades, which include producing and selling precious materials (e.g., diamonds and gold), are a front for money laundering, smuggling, and other terrorist financing.

These trades attract the international community’s attention. Therefore, in 2020 the IMF Executive Board decides to step in and set up a program to help these less developed countries defend against the illicit trades of precious materials. The purpose of this program is to establish a worldwide anti-money laundering system to combat the financing of terrorism.

To cast a vote on this issue, the Executive Board applies the regional blocs assignments of 2020. Voting Bloc One includes African countries such as Botswana, Congo, South Africa, and Ghana. Voting Bloc Two includes Latin American countries such as Argentina, Bolivia, Brazil, Colombia, and Peru. Voting Bloc Three includes Asian countries such as China, Japan, India, and Malaysia. Voting Bloc Four includes North American countries, Voting Bloc Five

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705 As stated in IMF Articles of Agreement, Article I, “The purposes of the International Monetary Fund are: (i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.”
includes European countries and Voting Bloc Six includes Oceanic countries. An illustrative voting bloc assignment is shown in Table D as follows.

Table D  Regional Blocs Assignments in 2020

<table>
<thead>
<tr>
<th>Voting Blocs</th>
<th>Member Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voting Bloc One</td>
<td>Algeria, Botswana, Congo, Ghana, South Africa, Uganda, Zambia, etc.</td>
</tr>
<tr>
<td>Voting Bloc Two</td>
<td>Argentina, Bolivia, Brazil, Colombia, Ecuador, Paraguay, Peru, etc.</td>
</tr>
<tr>
<td>Voting Bloc Three</td>
<td>China, India, Japan, Korea, Malaysia, Philippines, Saudi Arabia, Singapore, Thailand, Vietnam, etc.</td>
</tr>
<tr>
<td>Voting Bloc Four</td>
<td>United States and Canada.</td>
</tr>
<tr>
<td>Voting Bloc Five</td>
<td>Belgium, Denmark, France, Hungary, Italy, Spain, Germany, United Kingdom, etc.</td>
</tr>
<tr>
<td>Voting Bloc Six</td>
<td>Australia, New Zealand, Papua New Guinea, etc.</td>
</tr>
</tbody>
</table>

It is worth noting this voting bloc assignment could also fit each country’s role in the precious material trade. For example, many countries of Voting Bloc One are large diamond exporting countries. Many countries of Voting Bloc Two

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706 It is worth noting that this is an incomplete list meant only for illustrative purposes. For example, many South American countries, such as Ecuador, Guyana, Paraguay, Peru, and Suriname should be counted in Voting Bloc Two, but are not listed here.
are large gold exporting countries. Many Voting Bloc Three countries consume
and produce precious material in large quantities. Many countries in Voting Bloc
Four, Voting Bloc Five, and Voting Bloc Six generally have a more advanced
anti-money laundering system.

However, it is equally important to note that not all countries in one voting
bloc have the exact same role in precious material trades. For example, Egypt is
not a large diamond exporting country but is still assigned to Voting Bloc One.
This is because geographic regions and precious material trades are related and
neighboring countries generally have common interests in those trades.\footnote{Indeed, in spite of conflicting interest and disputes, 54 African countries established the African Union to achieve “[a]n integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in global arena.” See African Union website, \textit{AU in a Nutshell}, available at \url{http://www.au.int/en/about/nutshell}.}

Similarly, the Republic of the Congo is not a large diamond producing countries.
But its border country, the Democratic Republic of the Congo, produces a large
quantity of diamonds, the trade of which involves many entities within the
Republic of the Congo. A 2004 investigation by the Kimberley Process, a joint
government, industry and civil society initiative to fight against illicit diamond
trade, revealed that the Republic of the Congo exported 100 times more diamonds
than it produced.\footnote{BBC website, \textit{Congo Anger at Diamond Suspension}, available at \url{http://news.bbc.co.uk/chinese/simp/hi/newsid_3880000/newsid_3883500/3883579.stm}. “Congo's neighbour, the Democratic Republic of Congo, has long accused Congo of smuggling diamonds from its territory.” \textit{Id}.}

In the bloc vote, Voting Blocs Two, Three and Six vote against this project
because they are concerned that this project would negatively affect their member
countries’ production and exportation of precious materials. Voting Blocs One,
Four and Five vote in favor of this project because many of those countries are
more concerned about terrorism than precious materials production. The bloc vote
is tied in this case, so the Managing Director casts his vote to break the tie, a
power vested in him by the bloc voting amendment. Because the Managing Director votes to approve this proposal, the Executive Board’s proposal to set up the worldwide anti-money laundering system to combat the financing of terrorism is passed.

C. Hypothetical Case Three: The 2025 Surveillance Operation over China’s Exchange Rate Policy

By 2023, China has become the largest trading economy in the world. However, China’s economic growth dramatically slows down in 2025. To maintain a high GDP growth rate, the Chinese authorities decide to boost export trade by depreciating the Chinese currency, the Renminbi (RMB), against the U.S. dollar and other currencies. In this way, the Chinese government makes its exports less expensive and its imports more expensive. This currency policy creates a significant advantage for Chinese producers and exporters. In 2015, the Chinese authorities successfully peg the RMB to the U.S. dollar at about 9 yuan (the base unit of the RMB) per dollar, a 50 percent depreciation to the RMB’s effective currency exchange rate to the U.S. dollar in 2013.

Long before 2025, China’s practice of limiting the appreciation of its currency has been a major issue with its many international trading partners.

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Many have accused the Chinese authorities of manipulating its exchange rate, thereby creating unfair comparative advantage. As the institution that monitors the international monetary system, the IMF had always been hesitant to deal with China’s exchange rate policies. Michael Mussa, a senior fellow of the Peterson Institute for International Economics, illustrates this situation:

“Pointing out forcefully to Chinese authorities what they are obliged to do to fulfill their specific obligations or general obligations under Article IV—either in public, in discussions of the IMF Executive Board, or even in private—is not something that the Managing Director (or key IMF staff) appear to be prepared to undertake. Nor does the Managing Director, the IMF staff, or the Executive Board give any indication of a willingness to identify and emphasize that the essential role that substantial appreciation of the yuan must play in reducing global payments imbalances in an orderly and nondisruptive fashion. This is undermining both the achievement of one of the IMF’s fundamental purposes (as provided in Article I (vi)) ‘…to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members…’ and the fulfillment of the Fund’s foremost responsibility under Article IV, Section 3(a) ‘…[to] oversee the international monetary system in order to ensure its effective operation.’”

However, this situation changes in 2025. China’s currency depreciates so much that the IMF fears it will cause chaos to the international monetary system. The IMF Executive Board decides to exercise surveillance over China’s currency exchange rates according to its duty under Article IV, Section 3(a). To implement the surveillance, the IMF will make an assessment of China’s exchange rate as well as China’s domestic currency policy. The IMF will also have a frank and open dialogue with the Chinese authorities regarding China’s exchange rate level and the risks arising from it.

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IMF’s surveillance operation over China’s exchange rate policy causes significant controversies among IMF member countries. China asserts that it has authority to determine its exchange rate as a matter of national sovereignty. In addition, China claims that this authority complies with IMF Articles of Agreement, Article IV, Section 2(b), which states that a member country may choose its exchange arrangement by its choice.712 On Dec 2015, Chinese government sends a letter to the IMF, requesting the IMF to overhaul its surveillance over China’s exchange rate policy. Many other export-oriented countries, fearing the necessity of depreciating their currency in the near future, also oppose the IMF’s surveillance operations over China’s exchange rate policy. On the contrary, the United States, along with other major developed countries, supports the IMF’s surveillance operation. John Doe, a US congressman, even calls the IMF surveillance operation over China’s exchange rate policy “a justice delayed”. The United States argues that if China has authority to peg nine yuan to one dollar because of national sovereignty, then the United States would have the same authority to peg one dollar to one yuan. Korea and Vietnam, both of whom heavily rely on exports and have long suffered from China’s currency depreciation, also support the IMF’s surveillance, and claim that China violates Article I, Section 3, “…to avoid competitive exchange depreciation”713, and Article IV, Section 1 (iii), “…avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.”714

712 “Under an international monetary system of the kind prevailing on January 1, 1976, exchange arrangements may include … (iii) other exchange arrangements of a member’s choice.” Articles of Agreement, Article IV, Section 2(b).
713 IMF Articles of Agreement, Article I, Section 3.
714 IMF Articles of Agreement, Article IV, Section 1 (iii).
To discuss the surveillance operation proposal, the Executive Board applies the “Econ Blocs Assignment in 2025” as follows:\textsuperscript{715}

### Table E  Econ Blocs Assignments in 2025\textsuperscript{716}

<table>
<thead>
<tr>
<th>Voting Blocs</th>
<th>Member Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voting Bloc One</td>
<td>Austria, Australia, Belgium, Canada, United Kingdom, United States, etc.</td>
</tr>
<tr>
<td>Voting Bloc Two</td>
<td>Angola, Brazil, China, Mexico, South Africa, Thailand, etc.</td>
</tr>
<tr>
<td>VotingBloc Three</td>
<td>Armenia, Bolivia, Egypt, Honduras, Indonesia, Philippines, Vietnam, etc.</td>
</tr>
<tr>
<td>Voting Bloc Four</td>
<td>Afghanistan, Bangladesh, Haiti, Kenya, Myanmar, Nepal, Niger, Rwanda, Uganda, Zimbabwe, etc.</td>
</tr>
</tbody>
</table>

During the negotiation process, Voting Bloc One, Voting Bloc Three, and Voting Bloc Four reach consensus to support the IMF’s surveillance operation. As for Voting Bloc Two, because of China’s stronger objection, it holds several discussions in order to reach a consensus. Finally, China realizes that insisting on depreciating its currency may tempt other counties to do the same. China

\textsuperscript{715} This voting bloc is in reference to Peter Clark, Natalia Tamirisa, & Shang-Jin Wei, with Azim Sadikov & Li Zeng, *Exchange Rate Volatility and Trade Flows - Some New Evidence*, Appendix Table III.1. List of Countries in Major Country Groupings, International Monetary Fund (2004).

\textsuperscript{716} Like Table D, this is also an incomplete list meant only for illustrative purposes. The econ blocs assignments in 2025 are very similar to the econ blocs assignments in 2017, with only a few countries that have been reassigned.
eventually agrees to the surveillance operation. All four voting blocs have reached consensus, and they all vote in favor in the bloc vote. The IMF issues a surveillance report three months later and makes several suggestions to the Chinese authorities. China defers to the IMF’s suggestions and revises its exchange rate policy. The IMF successfully prevents a currency undervaluation crisis and keeps the international monetary system stable.
This dissertation has examined some central reasons why the IMF, at the very least, does not enjoy the success that the international community expected it to achieve, and concluded that the IMF does not have good governance. Because the governance reforms that the IMF has implemented in the 2000s cannot completely solve this issue, this dissertation has proposed the bloc voting amendment to the IMF in order to restore good governance. To adopt the bloc voting amendment to the IMF’s Articles of Agreement and implement such bloc voting, the IMF needs to conquer many formidable obstacles with its current governance structure and the world political and financial situations.

First, an unbalanced and opaque Executive Board would hinder the success of bloc voting because the Executive Board will play a critical role in the bloc voting amendment and those Executive Directors who have stakes in the current weighted voting system may hesitate to implement the bloc vote. Currently, many believe that the industrialized countries, especially the European countries, are overrepresented in the Executive Board. The seat assignment of the Executive Board should reflect the economic strength of the IMF member countries, just like the IMF quota and votes. Therefore, the seats of the Executive Board should be redistributed. The Executive Board needs to include more representatives from developing countries. The European seats must be combined
or reduced. In addition, there are many criticisms of the lack of transparency in the Executive Board.\textsuperscript{717} In the bloc voting system, the Executive Board would have the authority of determining voting blocs. This should be done in a fair and open way. A lack of transparency in this process would prevent the Executive from doing so fairly and openly with support of a majority of member countries.

There are opportunities for the IMF to conduct a reform of the Executive Board in the coming year. Indeed, when the IMF conducted the 2008 quota reform, it expressed the intention to conduct a similar reform of the Executive Board. As for the transparency issue, on May 2013, the IMF Executive Board reviewed the transparency policy and adopted new measures to “increase the amount, timeliness, and accessibility of information that the IMF makes available to the public.”\textsuperscript{718} The reforms of the Executive Board and the bloc voting system are interrelated. If the bloc voting amendment were passed, then the IMF would have better governance and its member countries would have more balanced voting power. This would promote the Executive Board to reform and play a better role in the IMF. Similarly, if the Executive Board were reformed and made more balanced and transparent, it would promote the adoption of the bloc voting amendment as well.

Second, the Managing Director has great influence on the IMF and would play a critical role, just like the Executive Board, in the adoption of the bloc voting amendment. Moreover, if the amendment were passed, the Managing Director would have a much more significant role, because he or she then may cast a vote to break the tie when a bloc vote is equally divided. However, given the fact that the Managing Director has always been a European since the


establishment of the IMF, this may negatively affect the balance of the bloc voting system and the likelihood of the amendment gaining wide support – unless the European control over the Managing Director selection is abandoned.

I believe that the IMF could have a non-European Managing Director in the future, despite the fact that this informal allocation of power – that the Managing Director has always been a European\(^{719}\) – has lasted for a long time and many other international financial institutions also have similar pattern of leadership selection to a particular country.\(^{720}\) The IMF Articles of Agreement does not prescribe the nationality of the Managing Director, and this shows the possibility of selecting a non-European Managing Director. The United Nations has set up a precedent for the IMF regarding this issue. The United Nations Charter does not strictly define the nationality of the United Nations Secretary-General, and the United Nations Secretary-General has been from a variety of regions.\(^{721}\) The United Nations has had four Secretaries-General from the Western European and Others Regional Group, one Secretary-General from the Latin

\[^{719}\] On the contrary, the President of the World Bank is always from the United States.

\[^{720}\] Indeed, in addition to the IMF and the World Bank, the four major regional international financial institutions show similar pattern of leadership selection to a particular country. For example, “the president of the Asian Development Bank has always been a Japanese national, the presidency of the European Bank for Reconstruction and Development has always alternated between French and German nationals, the president of the Inter-American Development Bank has always been a Latin American national, and the presidency of the African Development Bank has rotated among ‘various [African] linguistic and geographic groups’. Further, related institutions, such as the Multilateral Investment Guarantee Agency (MIGA), where only Japanese nationals have occupied the highest post, have also informally specified the nationality of their top officials.” Jacob Cogan, Representation and Power in International Organization: The Operational Constitution and Its Critics, 103 AM. J. INT’L L. 227 (2009).

\[^{721}\] Charters of the United Nations Chapter XV, Article 97, “The Secretariat shall comprise a Secretary-General and such staff as the Organization may require. The Secretary-General shall be appointed by the General Assembly upon the recommendation of the Security Council. He shall be the chief administrative officer of the Organization.”
American and Caribbean Group, two Secretaries-General from the Asia-Pacific Group, and two Secretaries-General from the African Group.\textsuperscript{722}

Furthermore, the IMF has been facing growing pressure to appoint a non-European Managing Director.\textsuperscript{723} Many emerging countries, China and Brazil for instance, have demanded that the selection of the Managing Director should be handled in a fair and open way, and are calling for an end to the European Managing Director status quo.\textsuperscript{724} In 2011, during the selection of the 11th Managing Director, Agustin Carstens, a Mexican economist and the Governor of the Bank of Mexico, was one of the two final candidates for Managing Director. Although it is Christine Lagarde, former Minister of Finance of France, who was named as the 11th Managing Director of the IMF, Carstens’ candidacy suggests that the IMF may have a non-European Managing Director in the near future.

Another approach to reform the position of the Managing Director is to have a “Managing Directorate” determining how that tie-breaking vote would be cast. The Managing Directorate would consist of the Managing Director and all of the Deputy Managing Directors – including one First Deputy Managing Director and three Deputy Managing Directors. They would have an internal negotiation in order to cast the decisive vote. This approach is based on the assumption that the Managing Director alone may have too much authority in the bloc voting system. This decisive vote should not be concentrated in that one person but should instead be implemented by a collective decision-making entity. However, this approach only works if there is diversity in the Managing Directorate. Currently, the IMF’s Managing Director and all four Deputy Managing Directors are from


\textsuperscript{724} \textit{Id.}
countries included in econ voting blocs one and two. Therefore, this Managing Directorate approach will not work unless voting blocs three and four also have their representatives in the Directorate.

Third, the IMF needs support from the G-20 countries.\textsuperscript{725} While the IMF has relied on the G-20 countries for increasing the IMF’s resources – the total quota subscription\textsuperscript{726} – the IMF also needs support from the G-20 for its governance reform. The G-20 currently represents almost 90 percent of global GDP and 80 percent of international global-trade.\textsuperscript{727} Currently two-thirds of the world’s population lives in G-20 member countries, and 84 percent of all fossil fuel emissions are produced by G-20 countries.\textsuperscript{728} In addition, under current quota assignments, the G-20 countries have 63.4 percent of the total voting power of the IMF.\textsuperscript{729} The IMF can hardly make any decisions without support from the G-20. Furthermore, and perhaps most importantly, as a practical matter for any bloc voting reform proposal, many G-20 countries will lose voting power and influence in the IMF after the governance reform. It is therefore essential to persuade these countries to support the reform.

Whether or not the IMF would get such support depends on the G-20’s attitude towards the IMF’s governance reform. One thing is certain: the G-20 supports the IMF’s current moves toward governance reform. A Communiqué of

\textsuperscript{725} For a brief account of G-20 countries, see supra note 260.

\textsuperscript{726} In the Second G-20 Leaders’ Summit, April 2, 2009, London, United Kingdom, the G-20 leaders agreed to treble resources available to the IMF to $750 billion and support a new SDR allocation of $250 billion. In Seventh G-20 Leaders’ Summit, June 18-19, 2012, Los Cabos, Mexico, the G-20 leader reaffirmed their commitment to strengthen the IMF’s credit capabilities with new resources up to 456 billion U.S. dollars. See the G-20 Website, \textit{The G20: its role and legacy, available at} http://www.g20.org/docs/about/part_G20.html.

\textsuperscript{727} The G-20 website, \textit{What is the G20, available at} http://www.g20.org/docs/about/about_G20.html.

\textsuperscript{728} \textit{Id}.

Meeting of Finance Ministers and Central Bank Governors in Moscow, 2013 states:

We, [The G20 leaders], underscore the importance of enhancing the credibility, legitimacy and effectiveness of the Fund. We reaffirm the urgent need to ratify the 2010 IMF Quota and Governance Reform. We note the IMF Executive Board’s decision to integrate the process of reaching a final agreement on a new quota formula with the 15th General Review of Quotas. We commit to achieve, together with the whole IMF membership, an agreement on the quota formula and complete the General Quota Review by January 2014 as agreed at the Seoul Summit. We attach high importance to securing continued progress in meeting these objectives, including on key elements at the September St. Petersburg Summit and subsequently at the October 2013 G20 Ministerial and IMFC meetings. We reaffirm our previous commitment that the distribution of quotas based on the formula should better reflect the relative weights of IMF members in the world economy, which have changed substantially in view of strong GDP growth in dynamic emerging market and developing countries. We reaffirm the need to protect the voice and representation of the IMF poorest members as part of this General Review of Quotas.\(^730\)

Whether or not the G-20 will support a fundamental decision-making reform for the IMF, such as adopting the bloc voting system, remains unclear. Indeed, under the bloc voting system, even though the G-20 countries would remain majority shareholders in the IMF, many of them would not be able to control the decision-making process as they have done up to now. Most importantly, the United States – the biggest economy in the G-20 – would not retain effective veto power over major decisions any more, despite having the largest quotas and voting power. We could expect, then, that many G-20 countries would not encourage such an ambitious reform.

However, there is still hope for adoption of a bloc voting reform as long as the G-20 countries generally regard the bloc voting system reform as a positive-sum game. After all, an IMF with better governance could advance the collective interest of all members, including the G-20. No single country has the ability to defuse a global financial crisis. If the G-20 countries, especially those countries that will experience a decline in quota and voting shares, take a farsighted view of their interests\textsuperscript{731} – that they have a greater interest in an IMF with better governance\textsuperscript{732} – then I am optimistic about the G-20’s support for the bloc voting reform of the IMF.

Of course, this dissertation’s voice is only one among many other scholars’ proposals. There are uncertainties and “open-ended” aspects to the proposals I have made. I also must acknowledge that there are numerous variations on this dissertation that might, upon further analysis and negotiation, be improvements to it. One particularly challenging aspects of my bloc voting proposal is that the formation of the voting blocs could prove very difficult. A possibility for overcoming this potential problem is that there could be a conference – sort of a modern-day Bretton Woods conference – that would be dedicated to the question of how best to implement the changed governing structure, with special attention to the establishment of both the econ blocs and the regional blocs. However, creation of an ideal voting bloc formation is beyond the scope of this dissertation.

Regardless, as long as this dissertation has triggered such analysis and negotiation, then I should consider my work to have been a useful contribution. The proposals I am making are far-reaching and probably do not have much prospect for immediate and enthusiastic endorsement. However, it is important to make bold proposals in order to ultimately bring to the IMF the sorts of reform

\textsuperscript{731} Bryant, supra note 551 at 3.
\textsuperscript{732} Id.
that will fulfill its purposes as imagined in 1944, and in a way that is relevant to the 21st century.

Indeed, the current global financial crisis offers an opportunity for the IMF to conduct governance reform. The financial crisis in the United States poses an immediate threat to the global economy, which should make all member countries, even those developed countries with greater voting power in the IMF, realize that the IMF is needed more than ever.\textsuperscript{733} However, an IMF without good governance would not be able to play a significant role in fulfilling its missions.

Moreover, the IMF must reform as soon as possible, at least soon enough to prevent the abandonment of the IMF or a collapse of the world economy. The IMF governance reform is a long-term operation and difficult to accomplish in a short time. Despite the fact that the IMF urged the United States Congress to enact the 2010 quota and governance reform package\textsuperscript{734} in a timely manner, the United States has continued to put it off. Many believe that such a delay in the IMF voting reform package will set back the next phase of major voting power changes and future governance reforms.\textsuperscript{735} However, a timely and effective governance reform is critical for the IMF, for the sake of the IMF member countries, and even for the world economy. The world has not yet recovered from the recent global financial crisis, and no one knows exactly when the next financial crisis will come. If the IMF does not improve its governance in a timely manner, it will not be able to properly monitor the international financial system. Such a consequence would badly affect the world economy.


\textsuperscript{734} For the requirement of amendment to the IMF Articles of Agreement, see supra note 164. Once approved, this would be the seventh amendment to the IMF Articles of Agreement.

An IMF with good governance will help maintain a stable world financial system – which is in the interests of all member countries, no matter big or small, east or west, rich or poor – and will benefit all the people in the world. Perhaps now is the best time for the IMF to conduct the governance reform. I do believe that it is not only possible but also necessary for the IMF to adopt the bloc voting system.
### APPENDIX 1. THE IMF EXECUTIVE DIRECTORS AND VOTING POWER, AS OF DECEMBER 2013

<table>
<thead>
<tr>
<th>Director</th>
<th>Alternate</th>
<th>Casting Votes of</th>
<th>Votes by Country</th>
<th>Total Votes</th>
<th>Percent of Fund Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appointed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meg Lundsager</td>
<td>Vacant</td>
<td>United States</td>
<td>421,961</td>
<td>421,961</td>
<td>16.75</td>
</tr>
<tr>
<td>Daikichi Momma</td>
<td>Isao Hishikawa</td>
<td>Japan</td>
<td>157,022</td>
<td>157,022</td>
<td>6.23</td>
</tr>
<tr>
<td>Hubert Temmeyer</td>
<td>Steffen Meyer</td>
<td>Germany</td>
<td>146,392</td>
<td>146,392</td>
<td>5.81</td>
</tr>
<tr>
<td>Herve Jodon de Villeroche</td>
<td>Gabriel Cumenge</td>
<td>France</td>
<td>108,122</td>
<td>108,122</td>
<td>4.29</td>
</tr>
<tr>
<td>Steve Field</td>
<td>Christopher Yeates</td>
<td>United Kingdom</td>
<td>108,122</td>
<td>108,122</td>
<td>4.29</td>
</tr>
<tr>
<td>Elected</td>
<td></td>
<td></td>
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