T20 Policy Brief

Task Force 7
Towards Reformed Multilateralism: Transforming Global Institutions and Frameworks

LEVERAGING INDIA'S G20 PRESIDENCY TO ADDRESS THE IMF'S QUOTA ALLOCATION ISSUE

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Abstract

This policy brief aims to examine the role of quotas at the International Monetary Fund (IMF), with a focus on India's evolving relationship with the institution. Quotas have been a central element of the IMF's financial decision-making since its inception. The assigned quota reflects a country's level of special drawing rights, and was initially granted to the IMF's 44 founding members. The purpose of quotas was to properly represent the post-war economic and political order.

Currently, India's quota at the IMF stands at 2.75 percent. In comparison, China and the US hold quotas of 6.4 percent and 17.43 percent, respectively, highlighting the hierarchical power structure of current global economic institutions.

This brief aims to explore how India can strengthen its pragmatic position within the IMF through the successful conclusion of the 16th General Review of Quotas and by addressing the imbalances in the global economy. It also examines the quota reviews and recommendations with respect to emerging powers like India, and assesses the scope for developing countries to negotiate institutional reforms within the IMF.

The Challenge

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The global balance of power is transitioning from the Atlantic to the Pacific, in part due to China's dominance, but also due to the growth in population, production, and resources in Asian and Asia-Pacific countries. Emerging economies and production hubs therein have become strategically important for the global supply chain. The leverage of these countries within global decision-making has increased through informal formats like the G20, but this has not been adequately reflected in the formal financial institutions like the International Monetary Fund (IMF). This misalignment between the formal and informal components of global governance highlights the need for widespread structural change.

The IMF assigns a quota share to each country to reflect its relative size within the global economy. Quota shares determine the financial contribution of members to the Fund and their voting power; actors holding the highest quota shares exercise a greater formal and informal influence over low- and middle-income countries within the IMF. This causes unequal power dynamics between members over policy objectives and the funds spent.[1]

Emerging powers such as India are seeking to reform the allocation of quotas and special drawing rights (SDRs) to address this inequity.[2] But this will require an 85 percent majority, making them subject to a US veto. The US, other members of the G7,[a] and the European Union currently have an overall voting majority, highlighting the importance of multilateral efforts to address this issue. The IMF's quota allocation process needs to be reformed to reflect the current global economic multipolarity and to effectively boost the association of new emerging powers to increase the Fund's legitimacy.

This policy brief argues that, as an emerging power, India must take advantage of its position as the current G20 chair to push for reforms in the global financial governance system for a more equitable distribution of financial resources among all countries. The US,

a The G7 consists of the seven largest advanced economies: Canada, France, Germany, Italy, Japan, the UK, and the US.

as the largest shareholder in the IMF, plays a significant role in this dynamic and has an effective veto power in all Fund decisions. In recent years, the US has been reluctant to support the IMF's quota reforms, given its sensitivities over the changing power dynamics between the developed and the emerging economies, especially amid China's rise.[3]

As the balance of power continues to shift towards the emerging economies, it is critical that the IMF reflects this new reality. Emerging powers must work together to encourage negotiations for quota reallocation and, in turn, promote an equitable and just fund allocation for countries tackling liquidity crises. India's leverage in the G20 can be used to create such a negotiating arrangement and lead the way towards a more equitable and representative IMF.

The 15th General Review of Quotas, which concluded in 2019, aimed to address the issue of the underrepresentation of emerging markets and developing countries in the IMF's governance structure. However, it fell short of achieving its objectives due to a lack of support from some of the major shareholders, most notably the US.[4]

Therefore, the upcoming 16th General Review of Quotas, scheduled to take place in 2023, presents an opportunity for India to negotiate for a larger quota and a more equitable distribution of voting rights within the IMF, and to arrive as a leading actor among emerging powers.

The G20's Role

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As a forum of emerging and developed countries, the G20 encompasses the virtues of informality, frankness, transparency, and openness. In comparison to formal multilateral institutions, proceedings, and discussions at the G20 are bereft of bureaucratic inertia. IMF reform is a highly politicised matter due to the element of power involved. Any progress on IMF reforms requires a 'conversational space' open enough to facilitate the understanding of the sensitivities of different nation-states, much like the G20.

Over the years, the G20 has seen some success in establishing a consensus among its members on tough issues. For instance, during the 2019 Osaka Summit, the US and China agreed to discuss the thorny issue of trade tariffs. Earlier, during the 2016 Hangzhou Summit, the G20 played a fundamental role in pushing the US to sign the Paris climate deal.[5] While the 15th General Review of Quotas may have failed to bring change, the legacy of informal groups like the G20 in bringing about critical breakthroughs is notable and replicable.

The G20 holds a prime position in the contemporary global governance process. G20 Summit communiques and joint declarations are authoritative texts that guide other global institutions.[6] A prior political consensus at the G20, reflected in the communiques, can inject a strong impetus to the deliberations within the IMF on quota allocation.

Importantly, the biggest fallout of the failure to address the misalignment in voting rights will likely be a loss of legitimacy for the lending agency. This will have a tangible impact on the global leverage of the advanced economies and will create a ground for alternative sources of finance that may come with unsustainable conditionalities and/or predatory intentions.

Since the 2008 global economic slowdown, advanced economies have pursued liberalisation with respect to interest rates. In the aftermath of the COVID-19 crisis, the leading economies have followed a similar expansionist monetary policy, further creating an environment of greater borrowing in the public and private sectors. As such, the crisis of large debts hangs in the balance and can be detrimental amid the ongoing trade war between the US and China. This highlights the importance of the international monetary system and the larger relevance of the IMF.[7]

During its G20 presidency, India can leverage its pragmatic position as an "engine of growth for the world economy" to renegotiate the position of emerging economies in the IMF's governance model. India will contribute 15 percent of the global growth in 2023, is a beacon of digital infrastructure and climate resilience initiatives, and the largest democratic example of secure robust and inclusive growth. As such, it is paramount for India to address the urgency of strengthening the larger international financial architecture, as argued by IMF Managing Director Kristalina Georgieva.[8]

Recommendations to the G20

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- ### Creating a robust negotiating framework to find mutual benefits

The G20 can enable a parallel round of talks between the G7 countries and India on the IMF quota issue. Still, there is a disinterest among advanced economies like the US to push for a larger equity in voting rights for the emerging economies, especially given that the largest mismatch is for China. For instance, while China's vote share is a mere 6.4 percent, it should have a 19.3-percent vote share as per GDP based on purchasing power parity, and a 16.3 percent share as per GDP based on market exchange rate.[9] This has enabled China to push its agenda by creating other multilateral institutions, such as the New Development Bank and Asian Infrastructure Investment Bank (AIIB). This presents a strong mutual threat for India and G7 countries like the US and Japan.

Importantly, India's pitch with the G7 must also include representation from the Vulnerable 20 countries[b] to incorporate Sustainable Development Goals-inspired climate agenda into the IMF's operation. These small developing countries have negligible decision-making power in the IMF on issues like climate change, despite confronting the brunt of its impacts.[10] India's G20 presidency is an opportune moment to use its relationship with the G7 to push for quota reforms, with an aim to create an equitable global financial architecture and re-legitimise the role of the IMF as a representative institution.

- ### Cooperating with regional financial institutions

In recent years, there have been demands for a mechanism and institutional structure for both long-term lending and emergency bailouts—the IMF's primary mandate—that is sensitive to the requirements of the developing, yet dynamic, Asian economies. The IMF is often criticised for its inadequate understanding of the socio-economic dynamics of Asia, which is not only much more diverse than Europe and North America but is also populated by highly fragmented economies compared to the integrated and formal economies of the Western

b The Vulnerable Twenty (V20) Group of Ministers of Finance of the Climate Vulnerable Forum focuses on economic responses and questions around climate finance.

world.[11] In this scenario, it is imperative that the IMF leverages the expertise of regional financial institutions such as AIIB, Asian Development Bank, and the BRICS Bank to remain relevant as a lender to economies in crises. It is also important to revisit the Chiang Mai Initiative[c] recommendations in light of China emerging as the economic engine of the region and the US's economic and strategic decline.[12] Even if the proposed cooperative framework among the institutions does not directly address the question of IMF quotas, it does increase the diversity and democratic quotient of the institution. Another benefit of this collaboration is that it will impede Chinese efforts to dominate the lending space in the region and stop the economic 'Finlandisation' of Asia. As a grouping that includes the biggest Asian economies as members, the G20 can serve as an effective platform for such reform.

- ## Pursuing 'continuity of agenda' with incoming G20 presidencies

The momentum in favour of reallocating IMF quotas can be bolstered by India working with the incoming G20 chairs (Brazil in 2024 and South Africa in 2025) to ensure that the agenda for IMF reforms sustains beyond its presidency. Institutionally, the G20's leadership structure—the Troika (past, current, incoming presidencies)—is amenable towards such collaboration. Importantly, this will ensure that even if the 16th General Review of Quotas fails, the IMF reform agenda will remain a priority of the incoming G20 leadership. Notably, Brazil and South Africa are emerging powers and support IMF reforms.

c The Chiang Mai Initiative is a multilateral currency swap arrangement among the ten members of the Association of Southeast Asian Nations.

Conclusion

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IMF quota reforms are necessary not only to maintain the legitimacy of the institution but to also sustain the contemporary economic order, which has served the global economy well, albeit with unequal benefits to some states. Countries that stand to lose their monopoly may be against reforming the IMF, but such attitudinal rigidity comes with risks—the alternative that will arise to fill the vacuum created by a delegitimised IMF will be destabilising at the global political level.[13] While an organic systemic transition is a healthy development, a Chinese led politico-economic order will be disruptive, primarily because it will usher in a totalitarian paradigm that does not recognise the equity of interests nor respects the Westphalian notion of sovereignty.

As one of the largest global economic and political forums, the G20 must seek to drive IMF reforms for the inclusive and equitable distribution of voting rights. India must take the lead in partnering with the G7 and the incoming G20 presidencies, and cooperating with regional financial institutions to negotiate better reforms in the 16th General Review of Quotas.

Attribution: Upamanyu Bas et al., “Leveraging India’s G20 Presidency to Address the IMF’s Quota Allocation Issue,” *T20 Policy Brief*, May 2023.

Endnotes

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