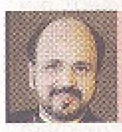

DOHA DATELINE

Dr R. Seetharaman

Setting priorities in global governance will bring growth

ADVANCED ECONOMIES could experience another significant downturn, as continuing sovereign and banking tensions in Europe and the so-called fiscal cliff in the US threaten to put the brakes on growth.

The upcoming meeting of the International Monetary Fund, or IMF, should focus on growth and measures to prevent further slowdown. There should be structural reforms to improve growth and stimulate more jobs. Unemployment is still an issue in most advanced economies. Debt-strapped Europe continues to remain the biggest risk to the global economy and the US fiscal cliff — automatic tax increases and spending cuts at year-end — are expected to sharply slow down already tepid growth in the world's largest economy. If policymakers in the eurozone do not act with enough force and speed to quell their region's debt crisis then things could get even worse.

The IMF and its policies will have a big say in trying to turn around the global economy. — *AFP*

There needs to be more fiscal and banking integration in the eurozone. The IMF meeting should emphasise on fiscal discipline from advanced economies, particularly from the eurozone and the US. Emerging economies are witnessing a slowdown in recent times. It is important that they bring various reforms to prevent a slowdown. External shocks can come from a decline in commodity prices and sudden stops in capital inflows. Developing/emerging economies will need to rebuild their buffers to ensure that they have adequate policy space. Some of these economies had adopted inflation-targeting and flexible exchange rates and made their fiscal and monetary policies more counter-cyclical, allowing them to stimulate and cool growth as necessary. Financial stability is also another area that requires attention. The recent easing measures from various central banks have once again resulted in huge capital inflows to stock markets. With risks of growth and inflation still persisting, the excess liquidity could result in bubbles being created in various parts of the world. Last, but not the least, the IMF should focus on changes in global governance. In the G-20 meeting back in November 2010, finance ministers agreed on doubling of IMF members' quotas — financial stakes that determine voting power in the institution — that will shift voting shares toward dynamic emerging markets and developing countries. The package included a proposed amendment to reform the executive board that would facilitate a move to a more representative and all-elected executive board, a doubling of IMF quotas and a shift in quotas to dynamic emerging markets and under-represented countries.

The core of the reforms will be a doubling of IMF quotas that will produce a shift of six per cent of quota shares to dynamic emerging markets and developing countries. One-half of the shift comes from advanced economies, mostly advanced European economies, and one-third from oil producers. The result is that emerging market countries Brazil, China, India, and Russia move up to be the top shareholders of the IMF.

The reform package is expected to bring a major realignment of quota shares to better reflect the changing influence of IMF member countries in the global economy. Following the IMF's board of governors' approval in December 2010, the next step is for member countries to accept the proposed quota increases and the amendment to the articles of agreement. To have the proposed reform in the executive board, it should have acceptance by three-fifths of the fund's members, having 85 per cent of the fund's total voting power required.

However, until September 10 this year, members only having 66.14 per cent of the total voting power had accepted the proposed amendment to reform the fund's executive board. It was also proposed to increase member-countries' quotas that acts as the IMF's principal source of financial resources. The consent to the quota increase is required by members having not less than 70 per cent of total quotas. Up until that date also, members having 73.38 per cent of fund quotas had consented to their proposed quota increases. It remains to be seen how emerging economies can play an active role in global governance to bring balanced global growth.

> “It remains to be seen how emerging economies can play an active role in global governance to bring advanced global growth

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The author is the group chief executive officer of Doha Bank. Views expressed are his own and do not reflect the newspaper's policy.