

Adjustment of European Quotas to Enhance the Voice and Participation of Developing and Transition Countries

Note prepared by the G24 Secretariat
August 25, 2003

1.- The European Union (EU) with a smaller GDP than the US has 74% greater voting power and is currently represented by 9 EDs in the IMF Executive Board (see Table 1)¹. In addition, EU has 56% greater voting power than US in the WB and 8 ED in the WB Executive Board. The over representation of the EU members, comes at the expense of other members. The excessive weight of the EU group of countries is partly attributable to the treatment of intra-EU trade in goods and services in the formula used for quota calculations.

2.-The calculated quota for the euro-zone countries has to be adjusted to take into account the existence of a single currency area. This implies the reduction in the share of the euro-12 countries and a redistribution of that reduction among other members; an outcome that offers interesting results, as shown below.

3.-Recognizing the impact of intra EU trade on quota calculations, IMF staff report “External Review of the Quota Formulas” EBAP/00/52 Sup. 1, May 1, 2000, shows what would be the hypothetical adjustments in order to exclude intra-trade in goods. The reason given for exclusion is that intra-trade is seen as *entrepôt* trade² in a free trade area. The report explains that if this adjustment were made “EU-15 countries’ share would be reduced by 9.2 percentage points (from about 37.1 percent to about 28.0 percent). The largest declines in percentage points are for Germany, the Netherlands, France, and Belgium”. Note that IMF staff estimates did not include trade in services in these results because of lack of data.

4.-Since the 2000 report, a number of European countries have formed a monetary union. This fact gives rise to a new situation calling for a revision of the calculated quota of the 12 Euro zone members. Since trade within a single currency area cannot give rise to balance of payments problems among its members, it is more akin to domestic trade than to international trade. Thus, trade between California and New York, between Delhi and Calcutta or between Rio de Janeiro and Sao Paulo is not regarded as international trade. Similarly, since trade between euro-zone members cannot give rise to balance of

¹ In addition, the ECB representative participates in: Article IV consultations, surveillance of the euro area members, Article IV consultations and use of resources of the 13 accession countries, as well as in discussions of the WEO, the international capital market reports, the role of the euro in the international monetary system and world economic and market developments.

² IMF adjustments of *entrepôt* trade is in order to consider only the domestic value added in international transactions.

payments problems, it can not be regarded as international trade for the purposes of the quota calculations³.

5.-Following the methodology of the 12th Quota Review, the G-24 Secretariat has made a new estimate of the calculated quota for the euro-zone countries adjusted for intra-trade in goods and services⁴. The new estimate refers only to the 12 euro zone members⁵. When this adjustment is made, the share in calculated quotas for the 12 euro zone countries declines, from 28.3 to 16.9, a fall of 11.4 percentage points (or 40.3 %) (see Table 2). In addition, if one reduces the actual quotas by the same proportion as the decline in calculated quotas, the quota shares of the EU-12 countries would fall from 23.3% to 14.1 % a reduction of 9.2 percentage points⁶.

Since total quotas shares add up to 100 percent, the decline in the shares of certain countries results in an increase in the relative share of the quotas of all other countries (See Annex I)

³ See also IMF staff report "The European Monetary Union and the IMF-Main Legal Issues Relating to Rights and Obligations of EMU Members in the Fund," SM/98/131 dated June 8, 1998. R. Sroits, 'The European Central Bank, Institutional Aspects,' page 443, argues that once the European Community has a common currency, a single monetary and exchange rate Policy, a single monetary authority (the ESCB), and a single external position in terms of payments and other financial transactions to and from third countries, it will have assumed the characteristics of a 'country' for the purposes of Article II, section 2 of the Fund's Articles of Agreement. He further refers to various expressions of the opinion that Euro Area Member States may no longer qualify for membership in the IMF, since they no longer possess the necessary characteristic of monetary sovereignty in the international order. J.V. Louis, in "Governing the EMU or Governing the EU" in the Symposium on Monetary Policy and Globalization of the Markets, June 2002, observes that the European Monetary Union is "irreversible and irrevocable" and that "the Member States are not able anymore to comply individually with the commitments inherent to their participation to the IMF."

⁴ OECD dataset for services and the same formula and methodology used in the 12th Quota Review.

⁵ The 12 countries considered in the calculation are: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, and Spain

⁶ Actual quotas as of July 14th 2003.

Table 1. Quotas and Voting Power of Selected Industrial Countries in 2000

	GNI ¹ (PPP)	GNI ¹ (billion \$) at market exchange rates	IMF Quotas (million SDRs)	Votes IMF	Votes World Bank
European Union	<u>8,864</u>	<u>8,459.4</u>	<u>64,339.5</u>	<u>647,145</u>	<u>414,336</u>
of which:					
France	1,438	1,438.3	10,738.5	107,635	69,647
Germany	2,047	2,063.7	13,008.2	130,332	72,649
Italy	1,354	1,163.2	7,055.5	70,805	45,045
United Kingdom	1,407	1,459.5	10,738.5	107,635	69,647
Other members	2,618	2,334.7	22,798.8	230,738	157,348
United States	<u>9,601</u>	<u>9,601.5</u>	<u>37,149.3</u>	<u>371,743</u>	<u>265,219</u>

Memorandum Items

World	44,459	31,315	212,666	2,172,350	1,617,412
All Industrial Countries ²	24,793	24,994	130,567	1,347,885	923,491
Developing Countries and Transition Economies	19,666	6,321	82,099	824,465	693,921

^{1/} In 2000^{2/} As listed *IFS*Source: World Bank, *World Development Indicators*, 2002. *IMF Survey Supplement*, September 2002.

Table 2. Current and Adjusted Calculated Quota for the EU-12 countries

	Current Calculated Quota (in millions SDR)	Share (in percent)	Adjusted Calculated Quota (excluding intra-trade in good and services) (in millions SDR)	Share (in percent)
EU-12	234,860	28.3	120,926	16.9
Austria	9,572	1.2	4,177	0.5
Belgium	17,709	2.1	6,649	0.8
Finland	4,955	0.6	2,592	0.3
France	38,652	4.7	21,593	2.6
Germany	62,854	7.6	34,872	4.2
Greece	3,087	0.4	2,031	0.2
Ireland	9,323	1.1	6,494	0.8
Italy	30,286	3.6	17,407	2.1
Luxembourg	12,903	1.6	3,580	0.4
Netherlands	24,562	3.0	10,990	1.3
Portugal	4,433	0.5	1,844	0.2
Spain	16,522	2.0	8,697	1.0
United States	138,060	16.6	138,060	19.3
Japan	70,364	8.5	70,364	9.8
Other countries	387,271	46.6	387,271	54.0
Total	830,556	100.0	716,622	100.0

Note: OECD data on trade in services was converted from US\$ to SDR at the average rate for each year taken from IFS.

Annex I

Numerical Exercises

A) Redistribution of EU quota shares after excluding intra euro-trade

This section presents several numerical exercises to evaluate the impact on quota and basic votes of a reduction in EU-12 countries' shares that would result from the exclusion of intra euro trade flows in goods and services.

In these exercises, the reduction in Euro zone actual quota shares of 9.2 percentage points is redistributed following the methodology adopted for quota adjustments during previous General Quota Reviews:

1. *Equiproportional distribution across countries.*

The reduction in EU-12 countries' shares is distributed among all other countries members in accordance to actual quota shares. As Table 3.1 shows, developing countries would increase their quota shares in 4.6 percentage points (11.9 % increase) very similar to industrial countries increase of 4.5 percentage points (11.8 % increase).

This is because as a group their shares in quotas are approximately the same (around 38%). But while industrial countries (without EU12) have approximately the same quota share as developing economies, they only represent 6% of the total membership (only 12 countries). In contrast, developing countries represent near 86% of the total number of countries (160 countries). Table 3.1 also shows that United States would also increase its quota shares in 2 percentage points (11.4 % increase). This could overcome their reluctance to accept an increase in basic votes, since their veto power would not be endangered.

Table 3.1 Equiproportional distribution of a reduction in EU quotas

Regions/Countries	Actual	Equiproportional Distribution
	as of July 14 th 2003	Adjusted Quota Shares %
Europe12	23.3	14.1
Industrial (w/o EU12)	38.1	42.6
Developing	38.6	43.2
US	17.5	19.5

2. *Equiproportional distribution and increases in basic votes.*

In addition, other exercises are presented, assuming an increase in basic votes from 250 to 750 and to 1000 (See Table 3.2). When basic votes are also increased in addition

to the equiproportional distribution of EU quota shares, given their larger number developing countries gain the most.

Table 3.2 Equiproportional Distribution of a reduction in EU quotas and Increase in Basic Votes (BV)

	Actual (Quota+BV)	Equiproportional Distribution		
	as of July 14 th 2003	Without Change (BV=250) %	BV=750 %	BV=1000 %
Europe12	22.9	14.0	13.7	13.5
Industrial (w/o EU12)	37.4	41.9	40.4	39.7
Developing & Transition	39.7	44.2	45.9	46.7
US	17.1	19.1	18.4	18.0

B) Selective Capital Increases

The following tables present estimates of “out of liness” or under representation in relation to: (1) unadjusted calculated quotas, (2) calculated quotas adjusted for intra-euro zone trade, (3) and in relation to GDP converted at market exchange rates, and (4) and GDP converted in terms of PPP.

Table 4.1 Ratio of Unadjusted Calculated Quotas to Actual Shares*

Countries	Calculated Quota Shares/ Actual Quota Shares
Angola	1.65
Austria	1.31
Bahrain	3.09
Bhutan	1.18
Bosnia-Herzegovina	2.13
Botswana	2.03
China	1.59
Denmark	1.46
Dominican Republic	1.16
Estonia	1.66
Ethiopia	1.33
Germany	1.24
Ireland	2.88
Japan	1.35
Korea	2.39
Kyrgyz Republic	1.84
Liberia	2.21
Luxembourg	11.95
Macedonia, FYR	1.62

Malaysia	1.82
Maldives	1.28
Mexico	1.19
Micronesia, Fed. States of	1.96
Netherlands	1.22
Oman	1.21
Palau, Republic of	2.06
Panama	1.23
Paraguay	1.20
Philippines	1.38
Portugal	1.30
San Marino	3.61
Seychelles	1.23
Singapore	6.81
Slovenia	1.33
Spain	1.39
Sweden	1.21
Thailand	1.70
Turkey	1.44
Turkmenistan	1.35
United Arab Emirates	1.90
United Kingdom	1.18
Uzbekistan	1.70
Number of countries	42

(*)Actual Quota shares as of July 14th, 2003

**Table 4.2 Ratio of Adjusted Calculated Quotas to Actual Shares*
(Adjusted for intra Euro-trade)**

Countries	Calculated Quota (w/o EU trade)/ Actual Quota Shares
Albania	1.31
Angola	1.91
Bahrain	3.58
Bhutan	1.37
Bosnia and Herzegovina	2.47
Botswana	2.36
China	1.85
Czech Republic	1.24
Denmark	1.69
Dominican Republic	1.35
Estonia	1.93
Ethiopia	1.54
Ireland	2.32
Israel	1.24
Japan	1.57
Kazakhstan	1.32

Korea	2.77
Kyrgyz Republic	2.13
Liberia	2.56
Lithuania	1.19
Luxembourg	3.84
Macedonia, former Yugoslav Rep. of	1.88
Malaysia	2.11
Maldives	1.49
Malta	1.20
Mexico	1.38
Micronesia, Federated States of	2.27
Norway	1.15
Oman	1.40
Palau	2.39
Panama	1.42
Paraguay	1.39
Philippines	1.60
San Marino	4.19
Seychelles	1.43
Singapore	7.89
Slovak Republic	1.22
Slovenia	1.54
Sweden	1.40
Tajikistan	1.25
Thailand	1.97
Turkey	1.67
Turkmenistan	1.57
United Arab Emirates	2.20
United Kingdom	1.37
Uzbekistan	1.97
Vietnam	1.22
Number of countries	47

(*)Actual Quota shares as of July 14th, 2003

Table 4.3 Ratio of GDP Shares (mkt)* to Actual Quota Shares**

Countries	GDPmkt_er/ Actual
Brazil	1.21
China	1.26
Iran	1.19
Italy	1.17
Japan	2.36
Korea	1.73
Mexico	1.29
Spain	1.38
Syrian Arab Republic	1.71

Turkey	1.44
United States	1.74
Number of countries	11

(*) Source: GDP mkt er, 1999 from 12th Quota Review

(**) Actual Quota shares as of July 14th, 2003

Table 4.4 Ratio of GDP Shares (ppp)* to Actual Quota Shares**

Countries	GDP_ppp/ Actual
Albania	1.17
Bangladesh	1.89
Brazil	2.07
China	3.73
Colombia	1.64
Egypt	1.19
Ethiopia	1.55
India	2.82
Indonesia	1.51
Iran, Islamic Rep. of	1.22
Japan	1.27
Korea	2.37
Mexico	1.63
Nepal	2.06
Pakistan	1.25
Paraguay	1.24
Philippines	1.68
Poland	1.25
Spain	1.23
Sudan	1.53
Thailand	1.79
Turkey	2.25
United States	1.25
Vietnam	2.30
Number of countries	24

(*) Source: GDP ppp, 1999 from WDI, WB.

(**) Actual Quota shares as of July 14th, 2003