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Carlos Navarro

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Central Bank Chief Governor Agustín Carstens Announces Candidacy for Top Post in International Monetary Fund

by Carlos Navarro
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Agustín Carstens, the chief governor of Mexico’s central bank (Banco de México), has thrown his hat into the ring to succeed Dominique Strauss-Kahn as managing director of the International Monetary Fund (IMF). The IMF leadership has been held by Europeans since the organization was created in 1944, and France is pushing strongly for another French citizen, the country’s Finance Minister Christine Lagarde, to succeed Strauss-Kahn, who resigned in the wake of a criminal sexual scandal in May of this year.

The move to name a new IMF director has taken on greater urgency because of stringent deadlines set by the international lender to replace Strauss-Kahn, who left his post after charges of attempted rape were filed against him in New York. The IMF, which would like to name a new managing director by June 30, has given countries until June 10 to submit nominations.

The competition between Carstens and Lagarde for the IMF post creates another layer in the ongoing Mexico-France rivalry. The two countries are already at odds on the decision by a Mexican court to uphold a sentence for French citizen Florence Cassez, who was convicted of participating in a kidnapping in Mexico (SourceMex, April 1, 2009) and (Feb. 16, 2011).

Carstens served as IMF deputy director
Carstens already has experience at the highest levels of the IMF, having served as deputy managing director at the Washington-based international lending institution between 2003 and 2006. He probably would have stayed longer at the IMF had President Felipe Calderón not convinced him to leave the post to head his economic policy team (SourceMex, Oct. 25, 2006). Carstens was eventually named finance secretary (SourceMex, Dec. 6, 2006). In December 2009, Calderón appointed Carstens to his current post of chief governor of the central bank, succeeding Guillermo Ortiz Martínez (SourceMex, Dec. 16, 2009).

Mexico already has some clout at the IMF as leader of a bloc of eight countries. The bloc—which includes five Central American countries, Venezuela, and Spain—controls about 4.66% of the vote. The group is the seventh largest, when measured in voting power. Only developed nations such as Japan, France, the US, Germany, and the UK have more power than the Mexico-led bloc.

Carstens wasted no time in announcing his decision to seek the IMF post once Strauss-Kahn announced his resignation. In a joint press conference with Finance Secretary Ernesto Cordero at the Museo Interactivo de Economía (MIDE), Carstens cited his past experience at the IMF and suggested his candidacy could bridge the gap between the developing and developed nations. "We need a managing director who can best serve all the member countries, not merely those experiencing challenges at one particular point in time," said the central bank governor.

Carstens made no secret in subsequent radio interviews that he would work to boost the influence of developing nations at the IMF if elected. "We need to recognize the role and greater stature of
emerging countries," the Mexican candidate said in an interview with Mexico City-based Radio Fórmula.

To that end, he said he would seek to unite developing countries behind his candidacy. "The important thing is for the emerging countries to unite, not to fragment, and support a common candidate. It's a difficult process because there are a lot of national interests," Carstens said.

Carstens' position that the IMF post be open to qualified candidates outside of Europe has found a sympathetic ear among many emerging nations. Influential leaders such as Australian Treasurer Wayne Swan have expressed the opinion that the IMF post should not be "limited" to any one nation or continent.

Conversely, Carstens faces an uphill battle in convincing other countries to unite behind his candidacy. Potential candidates have emerged in other regions, including South African Finance Minister Trevor Manuel, Singapore Finance Minister Tharman Shanmugaratnam, and Grigori Marchenko, chairman of the National Bank of the Republic of Kazakhstan. Each of those candidates is supported by influential countries in his region.

And Mexico’s two strongest allies in Latin America, Brazil and Peru, did not immediately commit to backing Carstens. Brazil's Finance Minister Guido Mantega, who said his country would like to examine the proposals from all the candidates, suggested that the IMF is rushing the decision to name a permanent replacement for Strauss-Kahn. Instead, he said, the institution should name an interim managing director and take a longer period to make the decision.

"I'd like to know what the candidates' proposals are, such as whether they will consider reforms and will take into account the weight of emerging market countries so we can be sure that the IMF won't revert to the past when it wasn't efficient or representative," said Mantega.

Mantega also ruled out supporting Carstens solely on the basis of geography. "What is important is to have a good candidate, not a specific nationality," said the Brazilian finance minister.

Peruvian Economy Minister Ismael Benavides said that his country has not decided whether to support Carstens, but he agreed that Latin America should have only one candidate. No other candidate from Latin America had emerged as of late May.

Two other nations, the US and China, could have an influential role in the process. The US has decided to keep its options open rather than choose between its neighbor to the south and its traditional European allies. "There are a lot of very qualified candidates," US Undersecretary of State Robert Hormats said in a recent interview.

There has been strong speculation that China might support Lagarde. "It's not likely that China would back someone from Asia, especially from within China. There still aren't many people within the Chinese system with an extensive international background," Wu Qing, a researcher with the Development Research Center government think tank in Beijing told Reuters. "I don't think it matters much to China whether the next IMF head is French or any other European."

European countries are expected to rally behind Lagarde, who apparently has become the consensus European candidate over other potential rivals that included former British Prime Minister Gordon Brown, ex-Turkish Prime Minister Kermal Davis, and Axel Weber, former head of Germany’s Bundesbank.
Great Britain, Ireland, and Italy have already publicly endorsed Lagarde, and it is likely that Germany could soon follow suit.

"It is a European consensus," French Budget Minister François Baroin said in a radio interview, citing the need to shore up the European Union's common currency. "The Euro needs our attention. We need all the Europeans on board."

European nations also argue that it is important that someone from the region retain control of the IMF leadership at a time that the lender is involved in major bailouts of Greece, Ireland, and Portugal.

But critics contend that it would be hypocritical to say that Europeans should manage European problems when this has never been the case for similar situations in Latin America or Asia.

"Europe would probably benefit from an outside perspective at this point that isn't worried about how his or her views on European integration and the financial crisis response will play in the [French] political scene in some future election. Having someone from Latin America, Africa, or Asia leading the organization would make it more likely that the IMF forces Europe to make some uncomfortable but necessary choices," guest blogger James Bosworth wrote in.

There is a difference of opinion in the Mexican private sector on whether Carstens should pursue the IMF post. "There are those of us who would not want to lose Carstens as the central bank’s chief governor," said Claudio X. González, former president of the Consejo Mexicano de Hombres de Negocios (CMHN).

"We believe that Mexico should come first, and we have to continue supporting our economy and [Carstens] will play a very important role," added González, who has projected a GDP growth of 5% or more in 2011.

A different opinion came from Mario Sánchez Ruiz, president of the Consejo Coordinador Empresarial (CCE), who strongly endorsed Carstens' decision to seek the post. "This move could be the start of a change [at the IMF] and would give our country and Dr. Carstens a prominent role on the international scene," said Sánchez Ruiz.

Cassez case continues to divide Mexico, France

As Carstens, Lagarde and others compete for the IMF post, there is a festering open wound in bilateral relations between France and Mexico. The decision by the Mexican federal appeals court to uphold a 60-year sentence against Florence Cassez for conspiracy to commit kidnapping prompted a sharp response from the French government. In the aftermath of the court decision, President Nicholas Sarkozy decided to dedicate a year-long series of cultural and artistic events in Paris entitled 2011 Année du Mexique (Year of Mexico) to Cassez. Rather than accept the tribute, Mexico cancelled more than 350 activities related to the celebration.

The tensions between Mexico and France were very much on the minds of key legislators of the two countries as they met in Paris in late May. Sen. Manlio Fabio Beltrones, who serves as the Mexican Senate president, addressed bilateral issues with his French counterpart Gerard Larcher.

The two Senate leaders discussed economic cooperation, academic exchanges, and other issues of mutual interest. But the Cassez case remained very much in the background of discussions. "There
are some clouds that have blocked our blue-sky relations," Larcher said, pointing out that the two countries will get past the dispute on the Cassez matter.

Beltrones said the encounter was a good first step in mending some of the ruptures that have occurred in the French-Mexican relationship. "The purpose [of this meeting] is to attempt to keep a good relationship between our two peoples," said the Mexican senator, a member of the opposition Partido Revolucionario Institucional (PRI). A good relationship between the two Senates, said Beltrones, could "serve as an example" of what can be accomplished for the governments of Mexico and France.

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