

Rising powers and global governance: negotiating change in a resilient status quo

MILES KAHLER*

The significance of the large emerging economies—Brazil, India and China—for global governance in coming decades is rarely contested. Each of these countries has placed large bets on integration with the global economy; each aims for a larger regional and global role. Strong economic performance during the great recession of 2008–2009 and its aftermath has only reinforced their claims for international prominence. The implications of their growing influence on the mosaic of institutions and actors that define global governance are, however, disputed.

Two divergent views of the future are grounded in the implications of economic convergence for international order. For most economists, the convergence of these populous developing countries with the industrialized countries—in absolute and per capita terms—is one of the great success stories of recent decades.¹ Given broad commitments made by these large emerging economies—the BICs—to engagement with the global economy and existing international institutions, the outlook for future global governance is benign: why should governments endanger the institutional formula that has brought them success? A more pessimistic view of convergence concludes that eras of power transition present a heightened risk of conflict, as incumbents react to stave off relative decline in the face of confident challengers. From this perspective, convergence introduces a greater risk of conflict and disorder. Rising powers will aim to place their imprint on reconstructed global institutions, and that stamp will differ markedly from a status quo supported by the incumbent powers.

Deciding between these competing images—nascent supporters of existing global governance and rising challengers promoting a disruptive agenda of change—requires a careful empirical examination of the causal links that would support either view. Negotiating behaviour provides key evidence for such an investigation. The *preferences* of the emerging powers in respect of global governance are a crucial starting point: if they do not diverge substantially from the current institutional and normative status quo, then the potential for conflict and

* The author wishes to thank Eric Helleiner, and participants in workshops and seminars at Chatham House, Princeton University and the Woodrow Wilson International Center for Scholars for their helpful comments on earlier drafts of this article. Duc Tran and Hanning Bi provided invaluable research assistance in the preparation of the article.

¹ Michael Spence, *The next convergence: the future of economic growth in a multispeed world* (New York: Farrar, Straus & Giroux, 2011).

bargaining deadlock is diminished. Preferences apply to both policy outcomes—the content of global governance—and institutional design. Equally important are *capabilities* for influencing global governance, since these may not follow directly from increasing economic weight. Countries may possess latent capabilities but fail to engage or deploy those capabilities to full effect, for reasons of domestic or international calculation. The effectiveness of *strategies* used by the rising powers is a third determinant of their ability to influence global negotiations and existing global governance institutions. Finally, as Amrita Narlikar's Introduction to this issue of *International Affairs* suggests, change in global governance results from bargaining between rising powers and *incumbents* (the United States, the European Union and Japan). The responses of those incumbents will be critical to global governance outcomes. In an analysis of this kind, many actors may seek changes in the existing order and its rules: an automatic equation of incumbent powers with the status quo and rising powers with challengers should be avoided.

Two definitional and theoretical caveats should precede this analysis linking preferences, capabilities and strategies to bargaining outcomes. First, following the introduction to this issue, global governance will not be limited to formal intergovernmental organizations (IGOs), even though those institutions often serve as the prime arena for negotiations between the emerging and incumbent powers. Global governance also includes an array of non-state actors and informal institutions in addition to the global peak organizations such as the International Monetary Fund (IMF) and the World Trade Organization (WTO). Second, continued economic convergence will be assumed. Recent slowing of economic growth in each of these countries, as well as their political tribulations, from the fall of Bo Xilai in China to India's power blackouts, highlight the uncertainties of their political and economic performance. Nevertheless, policy changes that have produced economic advance in each of these three countries seem to support a prediction of continued economic convergence on the anaemic economies of the indebted incumbent powers.

To signal tentative conclusions in advance, the impact of the large emerging economies on global governance is unlikely to be revolutionary. They do not differ from other powers, past and present, in wishing to extract as many benefits as possible from their engagement with the international order while giving up as little decision-making autonomy as possible.² They are less likely to be radical reformers than conservatives. Their domestic political and economic dilemmas induce an aversion to risk. Integration into the global economy remains cautious; they are circumspect in their willingness to assume global leadership roles. The BICs will seek shock absorbers and insurance policies, both domestic and international. Distributional conflict internally, given the large levels of social and economic inequality in these societies, also points towards a high assessment of risks from any costly, if responsible, stakeholder status. Large, conservative free-riders can pose risks for global governance, however, particularly for those

² Rosemary Foot and Andrew Walter underscore this similarity between the two economic powers in *China, the United States, and global order* (New York: Cambridge University Press, 2011).

issues, such as righting macroeconomic imbalances or arresting global climate change, that require more rapid and less incremental shifts in international collaboration.

New economic powers and preferences for global governance: policies and institutions

For those who predict damaging challenges to the existing global order from rising powers, demonstrating that their preferred global order would diverge from the status quo is not always necessary. An extreme example is offered by the proponents of offensive realism, who argue that increasing capabilities will themselves transform preferences in a radically revisionist direction.³ For others, state-centred development models create preferences that represent a clear challenge to the market-oriented prescriptions of the so-called Washington Consensus. Many governments, including the United States administration, adopted policies of large-scale state intervention in the wake of the global financial crisis of 2008–2009.⁴ The BIC economies, however, are often portrayed as proponents of an alternative, state-centred development model, grounded in long-standing ideology and deeply entrenched interests, that is inimical to the existing rules of the game in global economic governance.

More alarming, on this view, for supporters of existing global governance institutions, is the prospect that emerging powers may attempt to export an alternative model of political and economic organization that deploys ‘purposive state intervention to guide market development and national corporate growth, rather than relying on self-regulated market growth’.⁵ Dani Rodrik argues that the most successful developing economies have not followed the usual menu of market-oriented policies; instead, they have adopted a package of broadly neo-mercantilist policies that have promoted export-oriented manufacturing sectors. Economic convergence does not therefore produce challenges to market orthodoxy and its representatives among global institutions; rather, those challenges have produced economic convergence.⁶ If the BIC economies share successful state-directed models of economic development, and if they seek to create a compatible global environment for those economic models, conflict with the incumbent powers and with existing global economic institutions is likely to ensue. The recent record of their preferences in respect of global economic governance, however, does not indicate that the large emerging economies are promoting such an ambitious and ideological agenda.

³ John J. Mearsheimer, *The tragedy of great power politics* (New York: Norton, 2001).

⁴ The largest privatization in 2011 was the sale by the United States government of shares in the insurance company AIG, which reduced the holdings of the Federal Reserve in the company from 92% to 77% (Gill Plimmer, ‘Number of state sell-offs cut in half’, *Financial Times*, 12 Aug. 2012).

⁵ Gregory Chin and Ramesh Thakur, ‘Will China change the rules of global order?’, *Washington Quarterly* 33: 4, Oct. 2010, pp. 119–38 at p. 123.

⁶ Dani Rodrik, ‘The future of economic convergence’, John F. Kennedy School of Government, Harvard University, Faculty Research Working Paper Series no. RWP 11-033, Aug. 2011.

Rising powers and preferences for global economic governance

The revealed preferences of the BICs in global economic negotiations reflect their quest for greater influence in the dominant global economic institutions. They have consistently pressed for and, during the latest economic crisis, won a pledge of greater quota shares in the Bretton Woods institutions and, in China's case, greater representation in the top echelons of management.⁷ With those concessions by the incumbent powers, the emerging economies have been willing to commit greater resources to the international financial institutions. BIC governments remain sceptical, however, about any strengthening of the international regime of macroeconomic policy surveillance. In the wake of the great recession that began in 2008, the G20, which included the largest emerging economies, was awarded a central role in macroeconomic policy coordination, through the Framework for Strong, Sustainable and Balanced Growth, backed up by the Mutual Assessment Process (MAP). In practice, that process failed to produce concrete policy commitments that would move the G20 towards its collectively agreed goals. At the Seoul summit of the G20 in 2010, for example, China opposed a US proposal for using current account surpluses and deficits as indicators of the need to adjust. China was hardly alone in its opposition, however. Germany, another economy persistently in surplus, supported its position. Resistance to multilateral surveillance of macroeconomic and exchange rate policies on the part of the emerging economies was not the only reason for the disappointing results of the new G20 process.

The economic crisis also produced criticism of another feature of the international monetary system: the central role of the dollar. During the 2008–2009 financial crisis, China's criticism of the dollar's role appeared to aim at a strengthened multilateral system, not an overthrow of that system.⁸ The Chinese monetary agenda included many ideas that were familiar from earlier discussions of monetary reform, paralleling European criticisms from the Bretton Woods era.⁹ Chinese representatives did not raise these issues forcefully at G20 summits, however; nor did China or the other emerging economies appear to aim at a new global monetary architecture. A more significant option, promoted by China (though not by India or Brazil), was the internationalization of its currency with the aim of creating an alternative to the dollar. Its ambition produced a different dilemma, however. An elevated role for the renminbi would require change in China's core economic policies: a more flexible exchange rate, a reformed finan-

⁷ Justin Lin was appointed Chief Economist and Senior Vice President at the World Bank in 2008; Min Zhu was appointed Deputy Managing Director at the IMF in 2011.

⁸ Widespread attention was given to a series of articles published in early 2009 over the name of Zhou Xiaochuan, president of the People's Bank of China, which argued for a new valuation of the Special Drawing Right (SDR), based on an expanded basket of currencies; a new SDR allocation, a recommendation supported by developing countries; a revival of the idea of a substitution account, which had been considered in the 1970s; and, finally (and most controversially), an effort to make the SDR a more attractive reserve asset.

⁹ Eric Helleiner, 'The IMF and the SDR: what to make of China's proposals', in Bessma Momani and Eric Santor, eds, *The future of the International Monetary Fund: a Canadian perspective*, Center for International Governance Innovation/Canadian International Council Special Report (Waterloo, ON, 2009), pp. 18–22.

cial system and capital account liberalization.¹⁰ Here Chinese ambition to change international monetary governance collides with deeply entrenched patterns of domestic governance. In this instance, global economic ambition seems likely to undermine the existing political and economic order rather than reflect it.

Capital controls, a necessary adjunct to a pegged exchange rate if domestic monetary policy autonomy is to be retained, have long been part of the economic policy menu in China and India. The escape of these countries from financial turmoil during the international economic crisis only enhanced the attractiveness of such controls for developing economies that have faced cycles of boom-and-bust capital flows. During the 1990s, the IMF and the United States had pressed for a strengthening of international rules to promote capital account liberalization, a campaign that failed after a succession of financial crises in emerging markets. Over the course of the next decade, controls on capital inflows, although not more comprehensive controls, became more widely accepted policy instruments. Pragmatic adoption of capital controls by the BICs as a useful tool in dealing with international financial turmoil played a significant role in shifting the international policy consensus and inducing a qualified blessing by IMF staff in late 2012.¹¹

The preferences of China, India and Brazil in international financial and monetary governance demonstrate a common feature: a pragmatic desire for maximum policy discretion to deal with the effects of globalization. Some of those choices—notably China's pegged and undervalued exchange rate—attracted sharp international criticism, from the United States and others, as a violation of international rules. Nevertheless, the preference for maximum discretion in domains of politically sensitive economic policy was hardly restricted to the large emerging economies.¹² More significantly, the emerging economies did not present a coherent alternative template for global economic governance, nor did their proposals for change depart radically from those advanced in the past. The trade regime presented a similar picture, in which they defended national practices and policies without challenging the core principles or norms of the regime. The deadlock in June 2008 at the Doha Round of trade negotiations did not result from fundamentally divergent views of the trade regime or its future; the outcome can be explained by the political clout of agriculture in most major trading powers (and the particular sensitivity of subsistence agriculture in China and India), combined with WTO institutions that failed to encourage negotiating consensus among a larger and more diverse group of key negotiating parties.¹³

¹⁰ Barry Eichengreen outlines the obstacles to both an expanded role for the SDR and an international role for the renminbi in *Exorbitant privilege: the rise and fall of the dollar and the future of the international monetary system* (New York: Oxford University Press, 2011), ch. 6.

¹¹ IMF, 'The liberalization and management of capital flows: an institutional view', Washington DC, 14 Nov. 2012. On the role of emerging economies in forging the new consensus, see Jeffrey M. Chwieroth, 'Managing capital inflows in East Asia: an exercise in productive power', in Benjamin J. Cohen and Eric M. P. Chiu, eds, *Power in a changing world economy: lessons from East Asia* (London: Routledge, forthcoming 2014).

¹² Foot and Walter, *China, the United States, and global order*, pp. 95–102, note the reluctance of the United States, prior to the 2008 crisis, to accept international surveillance of its macroeconomic policy choices.

¹³ Amrita Narlikar, 'Is India a responsible great power?', *Third World Quarterly* 32: 9, 2011, pp. 1607–21 at pp. 1617–18; Amrita Narlikar, 'New powers in the club: the challenges of global trade governance', *International Affairs* 86: 3, May 2010, pp. 717–28.

The coordination of financial regulation has gained particular prominence in global economic governance since the financial crisis. The United States and the United Kingdom (and their national regulatory systems) were at the epicentre of the crisis. One might, therefore, have expected a serious challenge from the BICs to their near-hegemonic position in international regulatory regimes. Instead, as in other issue areas, inclusion of members of the G20 in key regulatory and standard-setting bodies reduced opposition and lent support to further evolution in regulatory cooperation. Participation in international regulatory bodies permitted the BICs some leverage over future regulatory developments in the financial capitals of the industrialized world where the global crisis originated.¹⁴ No fundamental challenge to the existing framework or its regulatory norms, embodied in Basel II and Basel III, emerged from China, India or Brazil, however. On the contrary, China continued its selective use of international regulatory standards as an instrument of domestic financial reform, a process that antedated the great recession.¹⁵

Overall, the revealed preferences of China, India and Brazil in global economic negotiations, both before and after the global financial crisis, were those of moderate reformers at best, intent on maintaining domestic policy space in the face of international norms and rules that had been too often developed without their participation. It was most often their participation in the process of rule creation and institutional evolution that was the key issue, not the content of the rules themselves.

Rising powers and international security regimes: opposition to hierarchy, defence of sovereignty

In salient issue areas of international security in the new century, it is, at first glance, more difficult to discover common ground among China, India and Brazil. Their military profiles and aspirations appear dissimilar. They share distance from the web of alliances and security relationships that centre on the United States, however; and they have often found themselves in opposition to US policies, during the Cold War and after. As the United States asserted a more expansive definition of its security interests after the terrorist attacks of 11 September 2001, the BIC governments often appeared as conservative defenders of existing international security regimes, confronting a Great Power intent on modifying those regimes unilaterally. The ambiguity of the label 'status quo' is most apparent in this domain.

Two key security regimes—non-proliferation of weapons of mass destruction (WMD) and peacekeeping in internal conflicts—illuminate both differences and common concerns among China, India and Brazil over the content of existing global governance institutions. Each was initially critical of the 1968 Nuclear

¹⁴ Eric Helleiner, 'What role for the new Financial Stability Board? The politics of international standards after the crisis', *Global Policy* 1: 3, 2010, pp. 282–90.

¹⁵ Foot and Walter, *China, the United States, and global order*, pp. 255–64.

Non-Proliferation Treaty (NPT) that has been a core institution for preventing the spread of nuclear weapons. China and Brazil did not ratify the NPT until 1992 and 1998 respectively; India remains a non-signatory state. The division embedded in the treaty between recognized nuclear weapons states and states committed to remain non-nuclear was regarded as an affront to all developing countries. The BICs have moved a considerable distance from their earlier critical stance towards an endorsement of the goal of non-proliferation. They remain sensitive, however, to any intimation of hierarchy in the non-proliferation regime, particularly attempts by the United States or other powers to impose new obligations without multilateral assent.

Although China's support for non-proliferation of WMD is now 'substantial and enduring', it has declined to recognize the US-backed Missile Technology Control Regime governing missile proliferation and continues to export missile-related goods and technologies.¹⁶ India's agreement on civilian nuclear cooperation with the United States represented a tailoring of regime rules to suit the national interests of an NPT non-signatory; its commitments brought India into compliance with some non-proliferation norms, though it remains outside key export control agreements and has declined to join the Proliferation Security Initiative.¹⁷

The participation in the non-proliferation regime of both China and India was driven in part by the logic of nuclear incumbency, ensuring their own security by preventing the spread of WMD to non-state actors in particular. For Brazil, which had abandoned its nuclear weapons programmes, the NPT remained 'an intrinsically unfair Treaty'.¹⁸ For economic and foreign policy reasons, Brazil was intent on defending its rights (and those of other developing countries) under the NPT to enrich uranium for peaceful purposes and to develop nuclear-powered submarines; it also refused to sign the 1997 Model Additional Protocol to the NPT. All three rising powers viewed 'mastery of nuclear technology as an important attribute of a great power'.¹⁹ Although they endorsed the aim of non-proliferation with varying degrees of enthusiasm—a sharp change from their stance during the Cold War—the BICs also carefully reserved as wide a sphere as possible for national action within the formal multilateral constraints of the NPT regime.

Repeated interventions in internal conflicts during the post-Cold War decades, most with authorization from the UN Security Council (UNSC), highlighted the conservative stance of the rising BIC powers towards the content of existing global governance. China, India and Brazil have each contributed substantially to international peacekeeping activities. China has contributed more peacekeeping

¹⁶ Evan S. Medeiros, *Reluctant restraint: the evolution of China's nonproliferation policies and practices, 1980–2004* (Stanford, CA: Stanford University Press, 2007), pp. 2, 4, 242–3.

¹⁷ Amrita Narlikar, 'Reforming institutions, unreformed India?', in Alan S. Alexandroff and Andrew F. Cooper, eds, *Rising states, rising institutions* (Washington DC: Brookings Institution, 2010), pp. 105–127; C. Raja Mohan, *India and the nonproliferation institutions* (Washington DC: Center for Strategic and International Studies, 2010).

¹⁸ Brazil's Foreign Minister applied this label in 2010; he argued in the same speech for the complete elimination of nuclear weapons and their lack of utility for national security.

¹⁹ Description of Brazil's position under Lula in Sarah Diehl and Eduardo Fujii, 'Brazil challenges international order by backing Iran fuel swap', *Nuclear Threat Initiative*, 15 July 2010, <http://www.nti.org/analysis/articles/brazil-backing-iran/>, accessed 16 April 2013.

personnel than any other permanent member of the UNSC over the past decade.²⁰ India has long been ‘an essential participant’ in UN peacekeeping operations, contributing 11–13 per cent of all peacekeepers.²¹ Brazil intervened in regional political crises in Venezuela, Bolivia and Ecuador, sent troops or observers to Lusophone African countries, and assumed leadership of the UN mission in Haiti.²²

Despite this activism, the rising powers have insisted on multilateral, UN support for such actions. They have consistently defended a traditional conception of sovereignty and professed scepticism regarding armed intervention against incumbent governments. As members of the UNSC, none supported UNSC Resolution 1973 approving a no-fly zone over Libya in 2011. In UN discussions over the Responsibility to Protect (R2P) provisions that defined obligations to defend civilian populations, China was a ‘conservative force’, but did not hinder discussion of the issue; India also offered only tepid support for the new principle.²³ Once again, domestic politics (concern over their own internal vulnerabilities) and foreign policy (alignment with developing country coalitions) drove the global governance preferences of the BICs towards a strict interpretation of the reserved sphere of national decision-making authority.

The common thread that connects preferences in global economic governance with these international security regimes is an insistence on equality with incumbent powers in interpreting global governance regimes and a rejection of any constraint on national decision-making autonomy that has not been explicitly negotiated and agreed. As they enter the upper echelons of the international hierarchies, whether as traders, investors or nuclear-capable powers, their embrace of equality with other non-incumbents also becomes more ambiguous, exemplified by China’s resistance to permanent UNSC membership for India and Brazil.

Preferences on global governance: institutional design

Despite these qualifications, the overarching trend in the preferences of China, India and Brazil on existing global governance regimes has been one of convergence on the status quo. Using the Cold War era as a benchmark, the BICs have moved in nearly every issue area towards greater acceptance of the content of major international governance structures. Their preferences on the form of global governance have become equally unexceptional. Although Asian governments have often been cast as hostile to legalized international institutions, China and India have participated actively in the dispute settlement mechanism (DSM) of the WTO. Developing countries are often viewed as disadvantaged by legal-

²⁰ Chin and Thakur, ‘Will China change the rules of global order?’, p. 128.

²¹ Teresita C. Schaffer, ‘The United States, India, and global governance: can they work together?’, *Washington Quarterly* 32: 3, 2009, pp. 71–87 at p. 74.

²² Paulo Roberto de Almeida and Miguel Diaz, ‘Brazil’s candidacy for major power status’, in Michael Schiffer and David Shorr, eds, *Powers and principles: international leadership in a shrinking world* (Lanham, MD: Lexington, 2009), pp. 225–56 at p. 241.

²³ Foot and Walter, *China, the United States, and global order*, p. 50; Narlikar, ‘Is India a responsible great power?’, p. 1614.

ization and the costliness of participation in such institutions, but the BICs have developed experience in the WTO DSM (often as targets of trade complaints) that has led to active engagement, particularly as third parties in panel proceedings.²⁴

Global governance is no longer limited to formal intergovernmental institutions, however. Networked governance, whether by transgovernmental networks or hybrid networks that include non-state actors, has become increasingly prominent in recent decades.²⁵ Non-governmental organizations (NGOs) are both actors and negotiating resources for national governments. Given the dominance in many issue areas of NGOs based in the G7 countries, BIC governments have often regarded these non-state actors as coalition partners of the industrialized countries. Their wariness has been amplified by contentious domestic relations with their own NGOs or, in the case of China, rejection of autonomous civil society organizations. The rising powers once again display conservative preferences, usually opting for a model of global governance in which national governments serve as essential gatekeepers to global institutions, and IGOs remain the preferred venue for negotiation and implementation of international agreements.

National capabilities and strategies of influence in global governance

The three largest rising powers display preferences on the content and form of global governance that have, in most issue areas, converged with those of the incumbent powers. As their engagement with the global economy and international institutions grew, they became more outspoken reformers, displaying 'a more assertive policy pursued through engagement and negotiation: pressing for reform but operating very much within the system'.²⁶ Preferences could diverge in the future, however, given domestic political change or renewed international economic turmoil. As sceptics have predicted, increasing capabilities might themselves produce a change in national preferences on the content and form of global governance.

Whatever the direction of underlying preferences, however, sheer economic weight and increasing military prowess do not directly translate into capabilities that provide bargaining power in global negotiations or influence over the institutions of global governance. In economic issue areas, market size contributes to capabilities and often provides a major bargaining advantage. More specifically, in the trade regime 'the capacity to open or close a market' is a reasonable estimate of bargaining power.²⁷ Rapidly growing internal markets and export-oriented economies are the primary foundations for the growing capabilities of China,

²⁴ Christina L. Davis and Nancy Blodgett Bermeo, 'Who files? Developing country participation in GATT/WTO adjudication', *Journal of Politics* 71: 3, July 2009, pp. 1033–49.

²⁵ Anne-Marie Slaughter, *A new world order* (Princeton, NJ: Princeton University Press, 2004).

²⁶ A description of Brazil's stance towards the existing order by Andrew Hurrell, 'Brazil: what kind of rising state in what kind of institutional order?', in Alexandroff and Cooper, eds, *Rising states, rising institutions*, pp. 128–50 at p. 136.

²⁷ John H. Barton, Judith L. Goldstein, Timothy E. Josling and Richard H. Steinberg, *The evolution of the trade regime: politics, law, and economics of the GATT and the WTO* (Princeton, NJ: Princeton University Press, 2006), pp. 10–11.

India and Brazil in global economic governance. In similar fashion, the scale of domestic financial centres and an ability to deny access to those markets have increased the leverage of the United States and the United Kingdom in bargaining over international regulatory standards.²⁸ As the BICs begin to host substantial, internationally connected financial markets, they will also gain greater voice in the development of future regulatory standards. Market size and access provide only a baseline for capabilities within global economic institutions, however: an ability to *commit credibly* to market access and compliance with agreed market opening measures is equally important.

Measurement of capabilities in other domains of global economic governance is more difficult. Monetary capabilities centre on the ability to delay or deflect adjustment costs (and their accompanying political costs), which in turn is based on reserves, the ability to borrow, and the openness and adaptability of the national economy.²⁹ A currency that is widely used internationally provides additional influence and also imposes certain constraints: a requirement for a credible and conservative monetary policy as well as highly developed and liquid financial markets.³⁰ In bargaining with the incumbent powers, China and other emerging economies have possessed one key asset: their large levels of reserves, accumulated as insurance against international financial shocks and as an effect of undervalued exchange rates. China's reserves in particular have exploded in size over the past decade. Although growing monetary power awarded it greater influence at the IMF, China's efforts to use its reserves as bargaining assets in bilateral negotiations with the United States have been largely ineffective.³¹

In global governance of issue areas that concern international or internal security, technological and military indicators provide initial estimates of national bargaining power. In the non-proliferation regime, mastery of nuclear technology and status as at least a near-nuclear power grant leverage to force adjustment in the regime, as India's bargaining with the United States demonstrated. Since many issues related to international security are referred to the UNSC, permanent membership of this body (currently enjoyed by China, but not India or Brazil) represents potential influence through veto power. The ability to participate in the internationally authorized use of force or in peacekeeping missions, based on at least minimal ability to project military power, is a further capability possessed by each of these rising powers.

Any survey of capabilities confirms the divergent profiles of the rising powers. China alone possesses increasing capabilities across international economic and security issue areas. On indices of military capability, Brazil stands apart: many of its South American neighbours have larger defence budgets relative to their

²⁸ Beth A. Simmons, 'The international politics of harmonization: the case of capital market regulation', *International Organization* 55: 3, June 2001, pp. 589–620.

²⁹ Benjamin J. Cohen, 'The macrofoundations of monetary power', in David M. Andrews, ed., *International monetary power* (Ithaca, NY: Cornell University Press, 2006), pp. 31–50.

³⁰ Andrew Walter, 'Domestic sources of international monetary leadership', in Andrews, ed., *International monetary power*, pp. 51–71.

³¹ Daniel Drezner, 'Bad debts: assessing China's financial influence in great power politics', *International Security* 34: 2, 2009, pp. 7–45.

economies; its military assets are smaller than those of either China or India.³² If variation in capabilities is one determinant of the influence of these rising powers in global negotiations, however, their willingness to mobilize these capabilities is equally important. Negotiating styles have compensated for deficits in capabilities. India and Brazil, for example, share an activism and engagement, particularly in trade negotiations, that cannot be explained by sheer commercial power. Brazil's coalition-building, its 'intensive "insider activism" and its capacity to work the informal norms of the WTO' explain its prominent position in that organization.³³ India, a founding member of the GATT, was overshadowed as a commercial power when more dynamic exporters emerged in Asia. Despite this decline in its measured capabilities within the trade regime, it has remained a leader of the developing country opposition during successive rounds of trade negotiations, including the current Doha Round. As for China, although it has been a leading member of Doha Round coalitions, it evinced little activism at the WTO during its first years as a member.³⁴ Its most active engagement with the WTO's DSM has occurred as a respondent and as an interested third party in cases involving other WTO members.³⁵

Domestic political constraints often inhibit the ability and willingness of the BICs to mobilize their capabilities in global negotiations and global governance institutions. New political actors, activated by integration with the international economy, often make it difficult to forge a coherent negotiating strategy. New foreign policy actors in China—from internationally active businesses to netizens—have produced a more fragmented policy process, calling into question the priority awarded to internationalization and pressing for a more forceful posture in pursuit of Chinese national interests.³⁶ Brazilian foreign policy-making, once dominated by the Ministry of External Relations (Itamaraty), now 'appears overstretched by its international commitments and at times conflicted, if not bewildered, regarding which international objectives it is supposed to pursue'.³⁷ State governments in India have begun to take positions on international economic policy, particularly India's relationship with the WTO, a sign that national deliberations on multilateral issues are no longer restricted to a national policy elite.³⁸

Domestic political calculations of cost also impose limits on engagement with such institutions. The relative poverty of these large, rapidly growing economies limits their willingness to exercise leadership in global institutions. Poverty is just

³² Regina Soares de Lima and Monica Hirst, 'Brazil as an intermediate state and regional power: action, choice and responsibilities', *International Affairs* 82: 1, Jan. 2006, pp. 21–40 at p. 38.

³³ Hurrell, 'Brazil: what kind of rising state in what kind of institutional order?'

³⁴ Margaret Pearson, 'China in Geneva: lessons from China's early years in the World Trade Organization', in Alastair Iain Johnston and Robert S. Ross, eds, *New directions in the study of China's foreign policy* (Stanford, CA: Stanford University Press, 2006), pp. 242–75 at pp. 253, 265.

³⁵ Chad Bown, 'China's WTO entry: antidumping, safeguards, and dispute settlement', in Robert C. Feenstra and Shang-jin Wei, eds, *China's growing role in world trade* (Chicago: University of Chicago Press, 2010), pp. 328–32.

³⁶ Linda Jakobson and Dean Knox, *New foreign policy actors in China*, SIPRI Policy Paper no. 26 (Stockholm: SIPRI, Sept. 2010), p. vii.

³⁷ De Almeida and Diaz, 'Brazil's candidacy for major power status', p. 227.

³⁸ Rob Jenkins, 'How federalism influences India's domestic politics of WTO engagement (and is itself affected in the process)', *Asian Survey* 43: 4, July/August 2003, pp. 498–621.

one element in the domestic fragility and insecurity that beset China, India and Brazil, however. China and India confront ethnic rebellions on their peripheries. The corrosive political effects of corruption pervade both authoritarian China and the two democracies. Environmental degradation has emerged as a prominent political issue in all three societies. This long domestic agenda and likely distributional conflicts in societies with high levels of economic and social inequality will affect bargaining stances across issue areas, generating a reluctance to bear substantial costs as part of international bargains, high sensitivity to the distributional implications of those bargains, and an unwillingness to give up the special status of developing country. Sharp distributional conflict within societies may produce distributive negotiating strategies, as national representatives become boxed in by the domestic costs of concession.

Domestic politics also creates political incentives for framing negotiations in ways that reduce flexibility. One politically driven perception is common to all rapidly developing economies: despite their aspirations for international status, rising powers typically underestimate their effects on the global economy and other countries. The scale of their policy externalities, whether greenhouse gas emissions or barriers to trade and investment, is far larger than can be easily conceded in domestic political discourse. This combination—persistent domestic demands on resources and self-perceptions of economic impact that lag behind reality—almost inevitably translates into a strong incentive to limit negotiating concessions, to curb costly global commitments, and to attempt to free-ride on the commitments of others.

Strategies and counter-strategies: rising and incumbent powers

National capabilities in global governance negotiations can be amplified by building coalitions of two types: South–South groups, in which the large emerging economies exercise leadership; and regional options that increase the rising powers' leverage at global level. Two competing South–South alternatives have emerged in global negotiations. The first, coalitions with other large emerging economies, offers an option more manageable in size, at the cost of reintroducing the hierarchy that the rising powers attack in other settings. Among such coalitions (although the scope of their activities hardly qualifies them for that label) are the IBSA Dialogue Forum linking the three democracies of India, Brazil and South Africa and the BRICS summit (Brazil, Russia, India, China and South Africa), which first met in 2009. Each of these groups has assumed the familiar dialogue format of many other similar groups: anodyne summit declarations, ministerial meetings between summits, and occasional concrete proposals, the latest an initiative for a BRICS development bank. After four summits, there is little evidence that the BRICS governments have forged any common collective action in global forums; given their divergent national interests in many key negotiations, the group is unlikely to craft an effective programme of action. Like the BRICS group, IBSA has no headquarters or permanent secretariat; founded in 2003, it has held five summits.

Its principal programmatic initiative to date has been the creation of a small IBSA Fund for development finance.

Efforts to forge larger South–South coalitions have centred on the WTO’s Doha Round and on climate change negotiations. India and Brazil actively promoted the G20 coalition during the Doha Round; India was also a leader of the G33 on the key agricultural agenda. Although China collaborated with Brazil and India in the final, deadlocked negotiations in 2008, China more typically chose to portray itself as a link between the developing and developed worlds. It has been less wedded to a coalitional strategy, in part because of its independent national power within the trade regime, in part because its diversified trade interests and significance as an exporter of manufactured goods resemble the commercial profile of an incumbent power.³⁹ For the BICs, and particularly India and Brazil, coalitional strategies produced seats at the top table in global trade negotiations. The forging of coherent developing country coalitions also offered potential benefits to the negotiating process through more effective representation of a larger number of actors. For individual BICs and the global trade negotiations, however, the balance sheet was decidedly mixed. As Amrita Narlikar points out, despite the potential benefits of large, coherent coalitions, the threat of defection by coalition members produced negotiating rigidity and, ultimately, deadlock at the Doha negotiations.⁴⁰ India was able to block unwanted agreements in the Doha Round, but agreements that matched its expanding commercial interests remained beyond its grasp.⁴¹ For Brazil, a major agricultural exporter, the collapse of the Doha Round in 2008 also raised questions about its interest in leading a developing country negotiating coalition.⁴² For both India and Brazil, coalition leadership enhanced their capabilities at the WTO, but impeded their strategic flexibility.⁴³

Coalitions based in regional agreements and institutions appear to offer more promising alternatives for China, India and Brazil. Like South–South coalitions, regional partnerships may add heft to national capabilities. Regional alternatives also provide a second bargaining benefit: an outside option in global negotiations. The two dominant economic powers, the United States and the European Union, have used that outside option—the threat of a regional exit from global economic regimes—explicitly and implicitly to win global bargaining advantage. The BICs have been disadvantaged in bargaining with the incumbent powers by the absence of their own credible regional options.

Over the past decade, however, China, India and Brazil have expanded their regional strategies. Since 2000, Asia has witnessed a striking proliferation of

³⁹ Pearson, ‘China in Geneva’, pp. 146–7.

⁴⁰ Amrita Narlikar, ‘A theory of bargaining coalitions in the WTO’, in Amrita Narlikar and Brendan Vickers, eds, *Leadership and change in the multilateral trading system* (Dordrecht: Nijhoff, 2009), pp. 183–202.

⁴¹ Narlikar, ‘Is India a responsible great power?’, pp. 1610–11.

⁴² De Almeida and Diaz, ‘Brazil’s candidacy for major power status’, p. 242.

⁴³ Outside the trade round, the demands of coalitional politics with the BASIC/G77 countries during climate change negotiations hindered Brazil’s move towards acceptance of internationally verifiable commitments to limit greenhouse gases. See Kathryn Hochstetler and Eduardo Viola, ‘Brazil and the multiscale politics of climate change’, paper prepared for presentation at the 2011 Colorado Conference on Earth Systems Governance, Colorado State University, Fort Collins, CO, 17–20 May 2011, p. 6.

regional initiatives: preferential trade agreements (PTAs); ASEAN Plus Three, which promoted financial cooperation between North-East and South-East Asia for the first time; and the East Asian Summit, which brought India into a pan-Asian institution. China was a driver in many of these initiatives, embracing its regional vocation with the same energy that characterized its earlier approach to global multilateral bodies. India's regional efforts in South Asia were less successful, although it actively pursued PTAs with economies both within and outside Asia. For both China and India, however, Asia was unlikely in the short term to add significantly to their global bargaining power. Regional heterogeneity in Asia—in income levels, political regimes and other dimensions—points to divergent preferences over regional institutionalization. Rivalry between the rising powers, China and India, as well as China's competition for regional leadership with Japan, make a deepening of regional collaboration unlikely. The negotiation of the Chiang Mai Initiative Multilateralization (CMIM) is a rare example of Chinese partnership with Japan in developing regional cooperation. The recent slowdown in China's economic growth highlights a final impediment to building an Asian regional base that could provide a credible regional alternative in global bargaining: economic dependence on extra-regional economies (largely the US and the EU). Asian regionalism has also produced relatively weak institutions with little delegated authority, offering only uncertain support for the global ambitions of China and India.⁴⁴

Brazil has also pursued a regional leadership role as an avenue for strengthening its global ambitions, beginning with the negotiation of a customs union, Mercosul (the Southern Common Market), and accelerating during the presidency of Lula da Silva when Brazil played a leading role in creating the South American Community of Nations (Unasur) in 2004. Brazil has confronted the same dilemma as China and India, however: the costs of a leadership bid that has won at best uncertain support from the rest of the region. Brazil's activism in South America did not produce either immediate acknowledgement of its regional leadership at the global level or acquiescence by its neighbours in its new role. Regional bargains did not translate easily into common positions in global negotiations. At the same time, regional diplomacy placed new burdens on an already overtaxed diplomatic establishment.⁴⁵

Neither South–South nor regional coalitions have reliably supported the global bargaining power or the global governance ambitions of the BICs. India and Brazil, the most energetic proponents of South–South coalitions, achieved larger roles in the WTO and other forums as a result of their coalitional leadership; but leadership also imposed costs by tying their bargaining strategies to a large and heterogeneous group of developing countries. Regional alternatives were not successful enough to serve as credible outside options, and they taxed

⁴⁴ Miles Kahler, 'Regional institutions in an era of crisis and globalization', in Miles Kahler and Andrew MacIntyre, eds, *Integrating regions: Asia in comparative context* (Stanford, CA: Stanford University Press, forthcoming 2013).

⁴⁵ Hurrell, 'Brazil: what kind of rising state in what kind of institutional order?', p. 142; Soares de Lima and Hirst, 'Brazil as an intermediate state and regional power', pp. 31–2.

the diplomatic resources of the BICs. The aspiring global powers discovered that regional neighbours were often their rivals rather than loyal supporters of their negotiating agendas.

Incumbent counter-strategies: delay and co-optation

As China, India and Brazil sought to expand their influence and satisfy their policy preferences in global institutions, the incumbent powers—the US, the EU and Japan—were not passive observers. They pursued their own strategies in response, seeking, on the one hand, to gain legitimacy by accommodating demands by the rising powers for a greater formal role in key institutions while, on the other, retaining as much decision-making authority and institutional efficiency as possible.

Over the past decade, in nearly all of the key global governance institutions, the largest emerging economies were granted larger decision-making roles, either through an increase in quotas (as in the IMF and World Bank) or through incorporation into clubs that had been restricted to industrialized countries (such as the principal entities overseeing financial regulation). In some cases, such as India's membership of the OECD, club requirements were ultimately assessed as too costly and were declined—but the option was discussed.⁴⁶ The G20, a previously marginal group that included the large emerging economies, was promoted to a central role in global economic management. At the same time, key beachheads of incumbent power, such as the top positions at the IMF and World Bank, were not readily conceded. Following the scandal-induced resignation of IMF managing director Dominique Strauss-Kahn, the BRICS issued a statement labelling Europe's long-standing claim to the position an 'obsolete, unwritten convention'. Nevertheless, at the IMF and then again at the World Bank, Europe and the United States succeeded in retaining institutional leadership by a skilful acceptance of competition and the nomination of individuals who did not fit the traditional mould: a woman at the IMF (Christine Lagarde) and, at the World Bank, a global health expert who was born in Asia (Jim Yong Kim).

After co-opting the large emerging economies, the incumbent powers did not, for the most part, encounter radical demands for change or monolithic blocs led by the new members. In the G20, for example, the Asia-Pacific members were the largest group, but they did not coordinate successfully to promote a regional agenda. Thus the incumbent powers gained legitimacy not only for existing global institutions and policies but also for the principle of hierarchy itself: in expanding their influence within these institutions, the emerging economic powers accepted that some countries were more equal than others, a position that they had long criticized.

The incumbent powers also worked to weaken outside options that would enhance the future bargaining power of the rising powers. The move to co-opt these powers into existing clubs placed their relations with other members of South-South coalitions at risk. Regional arrangements that appeared threatening

⁴⁶ Schaffer, 'The United States, India, and global governance', p. 77.

to incumbent powers were undermined through competitive regional initiatives: Japan attempted to match China's campaign for PTAs in the Asia–Pacific region; the United States countered the threat of a China-led Asian trading bloc with the Transpacific Partnership. The net result of the incumbents' strategies was a modest increment of influence for the rising powers in existing global institutions and negotiating forums—institutions made more legitimate by the participation of those powers. At the same time, outside options that might enhance the future institutional leverage of Brazil, China and India were rendered less credible by the incumbents' counter-strategies.

Conclusion: negotiating with rising powers and the future of global governance

The world's three largest emerging economies—China, India and Brazil—give little sign that they wish to mount radical challenges to the status quo in global governance. Their economic success is based on cautious integration with the international economy, and they have become major stakeholders in the existing international economic order, unlikely to support revolutionary change. Their record before and during the global economic crisis of 2008–2009 was one of support for reformed global governance institutions, defined as institutions that award them greater influence, commensurate with their expanded economic, political and military capabilities. Proposals for change in global governance, to the degree that they were advanced by the BIC powers, were well within the scope of existing reforms, past and present. BIC governments have demonstrated little desire to export national models of development, but they have resembled other large countries, including the incumbent powers, in attempting to defend national policy autonomy while extracting maximum benefit from global economic integration.

This generally benign scenario of accommodation and reform does not mean that the rising powers will be pliable negotiating partners. Nor does it eliminate the risk of conflict between rising powers and incumbents with the potential to disrupt global governance. Conflict is most likely to occur along three fault-lines: system friction, distributional conflict and institutional efficiency. Emergence of conflict on the first fault-line depends on the stance of the incumbent powers, which are likely to demand market-oriented changes of the rising economic powers. If continuing economic advance by the large emerging economies is dependent on their *failure* to converge on market-oriented models of political economy, governments of the rising powers and domestic interests that are entrenched in their existing models of development will resist these demands for harmonization with global standards. Although the emerging economies will converge selectively on many of the institutional practices and standards of the incumbent powers, they will continue to display institutional differences that affect their economic partners and competitors. Conflict over treatment of foreign investors, government subsidies, labour and environmental standards, and many other behind-the-border policies

and practices will continue. Negotiations between the incumbent powers and the emerging economies over these issues will raise questions that have been on the global governance agenda throughout the era of globalization: should international economic governance aim for deeper integration at the cost of domestic political and economic difference? Or should the harmonization agenda that was a prominent part of the Washington Consensus be exchanged for a more modest vision, one in which system differences are managed, not erased, and negotiations aim at reducing conflict rather than harmonizing divergent practices?

The second line of conflict within global governance is less amenable to management and resolution. Distributional conflict with the current rising powers is more likely to increase because of their internal domestic cleavages: high levels of poverty and inequality coupled with lagging perceptions of their economic impact on the global system. Even severe critics of China and the other BIC economies do not claim that the threats they pose to global governance 'derive from any cohesive, let alone comprehensive strategy concocted by the political or even intellectual leadership of the country'.⁴⁷ Rather, the principal threat comes from a perception on the part of the incumbent powers that the rising powers are free-riding. The large emerging economies may excuse their uncertain compliance with global rules and reject new and binding obligations by pointing to weak state capacity and their continuing status as developing countries. As the economic weight and negotiating power of the emerging economies grow, the incumbent powers are likely to resist such negotiating strategies.

Negotiating issues with large distributional consequences will be rendered even more intractable by the competing perspectives on either side: what is identified as free-riding by the incumbent powers is defined by the emerging powers as economic justice for countries still contending with large poor populations. These disparate negotiating perspectives obscure a more fundamental issue of global justice: how much should a poor country—no matter how large—contribute to sustaining global governance? Even if the BICs' economic success merits removal of their developing country status, what other concessions should be made in the light of their internal social and economic demands?

Finally, the incorporation of these rising powers into global governance sharpens the existing trade-off between institutional legitimacy based on inclusion and legitimacy based on efficiency in reaching cooperative international bargains and implementing those bargains. Narlikar has described this trade-off in WTO negotiations, where the inclusion of new trading powers in prominent roles during the Doha Round produced deadlock.⁴⁸ Here the negotiating strategies pursued by the rising powers will be key. Simply building large coalitions to press their interests and those of other developing countries will not be adequate if the result is persistent deadlock across many issue areas. The need for institutional innovation to deal with large numbers in a multilateral negotiating setting

⁴⁷ C. Fred Bergsten, Charles Freeman, Nicholas R. Lardy and Derek J. Mitchell, *China's rise: challenges and opportunities* (Washington DC: Peterson Institute for International Economics, 2009), p. 12.

⁴⁸ Narlikar, 'New powers in the club'.

has been present since the explosion of independent states and their entry into international institutions in the 1960s and 1970s.⁴⁹ Nearly all such institutional solutions involve some measure of delegation or representation, however: all sovereign parties cannot be equally involved in forging global agreements at all times. For many developing countries, and particularly for the largest emerging powers, such delegation, and the hierarchy that it implies, are difficult to accept. The risk, if institutional innovations are not successful, is institutional exit on the part of one or more incumbent powers. The formation of clubs with restricted membership or the creation of coalitions of the willing may serve as an option for advancing international cooperation. Such alternatives to existing global negotiating forums and governance institutions also risk fragmentation of global governance and disfranchisement of less influential participants.

Global governance in an era of rising powers and distracted incumbents

The most recent global economic crisis, the worst since the Great Depression of the 1930s, did not result in a wholesale breakdown of international cooperation or the dismantling of regimes of global governance. In recent negotiations, the rising powers have demonstrated themselves to be conservatives, driven by domestic stakeholders and their conceptions of national economic interest to defend the existing order. The support of the rising economic powers—in contrast to their counterparts during the earlier economic crisis—was crucial in sustaining international cooperation. There are two histories of the 1930s, however: on the one hand, militant challengers to the status quo that disrupted peaceful change; on the other, a deficit of individual and collective leadership.⁵⁰ Looking forward, a power transition model that emphasizes disruptive challenges to global governance seems implausible. Disorder and conflict resulting from a failure of leadership are less improbable. On this model, incumbents, distracted by slow growth and growing indebtedness, would confront rising powers, intent on extracting national advantage while benefiting from the existing rules of the game. Cooperation, particularly if it entailed greater international oversight of national policies, would fail to advance. Critical new issue areas, such as surveillance of global economic imbalances or climate change, would witness fragile bargains at best or unilateral action at worst.

Several institutional innovations could contribute to successful negotiations with the rising powers and advances in global governance that win their consent. First, if incumbents concede greater influence over global governance to the rising powers, the ascendant powers must commit to transparency. Increased transparency has been a major achievement in recent reforms of global governance; it should not be traded away, whatever the discomfort of these governments.

⁴⁹ Miles Kahler, 'Multilateralism with small and large numbers', *International Organization* 46: 3, Summer 1992, pp. 681–708.

⁵⁰ For the latter, see Charles Kindleberger, *The world in depression, 1929–1939* (Berkeley: University of California Press, 1986).

Transparency is not a panacea for failed negotiations and persistent conflict, but few would refuse to acknowledge the contribution of informational distortions and asymmetries to cooperation failures. Second, given the domestic political and economic uncertainties that confront the large emerging economies, negotiations over reformed institutions should aim at built-in flexibility, in the form of escape clauses and safeguards (subject to international oversight). Third, given the political sensitivities surrounding sovereignty in these countries and a willingness to turn to nationalist vocabulary in framing debates over global engagement, informal institutional forms may prove more effective, by avoiding any appearance of international imposition. Surveillance mechanisms, which are likely to be introduced in many issue areas, from macroeconomic coordination to climate change, are particularly sensitive; the careful design of those mechanisms will be essential for strengthened global governance. Finally, the informal networks that span governments and NGOs in the industrialized world, a critical new underpinning to international collaboration, must link to the emerging economies as well.

Innovations of these kinds, even if they can be implemented, provide only modest insurance against a weakening of the patchwork of global governance and its institutions in the face of a changing global environment. Spillovers from military and political rivalries—between the United States and China, or between China and India—could undermine collaborative bargains in other issue areas. Another large economic shock, comparable to the great recession of 2008–2009, could make regional options more attractive as institutional insulation against global economic disorder. Successfully negotiating the rise of China, India, Brazil and other rapidly developing economies will not be easy. The incumbent powers and their citizens should bear in mind, however, the significant positive global externalities produced by successful development in the largest emerging economies. A return to the poor and poorly governed China of the recent past, to the India of persistent poverty and low growth rates, to the Brazil of hyperinflation and recurrent financial crises would be the worst outcome for the international order. Reformed global governance should aim to sustain future economic and political progress in these large emerging economies. Governments of incumbent powers must convince their publics that such progress continues to produce substantial benefits and to merit reform of global governance. Despite their daunting domestic agendas, the rising powers, in turn, must couple growing influence in the institutions of global governance with an increase in their own levels of international engagement.

This article was downloaded by: [Koc University]

On: 07 April 2015, At: 23:38

Publisher: Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954
Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH,
UK



Review of International Political Economy

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/rrip20>

Comment: Trading places? China, the United States and the evolution of the international political economy

Mark Beeson ^a

^a Department of Political Science and International Studies , University of Birmingham , Edgbaston, Birmingham, UK

Published online: 11 Nov 2009.

To cite this article: Mark Beeson (2009) Comment: Trading places? China, the United States and the evolution of the international political economy, Review of International Political Economy, 16:4, 729-741, DOI: [10.1080/09692290802427766](https://doi.org/10.1080/09692290802427766)

To link to this article: <http://dx.doi.org/10.1080/09692290802427766>

PLEASE SCROLL DOWN FOR ARTICLE

Taylor & Francis makes every effort to ensure the accuracy of all the information (the "Content") contained in the publications on our platform. However, Taylor & Francis, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the Content. Any opinions and views expressed in this publication are the opinions and views of the authors, and are not the views of or endorsed by Taylor & Francis. The accuracy of the Content should not be relied upon and should be independently verified with primary sources of information. Taylor and Francis shall not be liable for any losses, actions, claims, proceedings, demands, costs, expenses, damages, and other liabilities whatsoever or howsoever caused arising directly or indirectly in connection with, in relation to or arising out of the use of the Content.

This article may be used for research, teaching, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly forbidden. Terms & Conditions of access and use can be found at <http://www.tandfonline.com/page/terms-and-conditions>

Comment: Trading places? China, the United States and the evolution of the international political economy

Mark Beeson

Department of Political Science and International Studies, University of Birmingham, Edgbaston, Birmingham, UK

ABSTRACT

The remarkable economic rise of China and the recent turmoil in US financial markets inevitably raises questions about the respective fortunes of both countries. This paper assesses the relative standing of the US and China by placing their relationship in historical context. It is suggested that China's accession to the WTO marked the highpoint of US influence and ascendancy. Since then, China's position has been steadily improving, something that the recent emergence of its first sovereign wealth fund and its subsequent role in bailing out distressed US financial institutions has dramatically highlighted. If China's form of 'state capitalism' continues to become more influential it will have major consequences for not only the US, but for the extant geopolitical order more generally.

KEYWORDS

China; United States; WTO; sovereign wealth funds; state capitalism.

How times change. During the 1990s it became almost obligatory to describe the US's position in the international system as unprecedented and 'unipolar'.¹ The power of the US, it seemed, was secure, American influence was pervasive, and other countries would have to bear the costs of adjustment to the new world order. One of the most telling expressions of the power of the US and the influence of the international order it had effectively created was China's accession to the World Trade Organization (WTO). So desperate was the Peoples' Republic of China (PRC) to join a capitalist world order dominated by the US generally and the Bretton Woods institutions in particular, that it was prepared to accept terms and obligations that far exceeded the obligations of previous new developing

nations' (Breslin, 2004: 665). Less than a decade later, however, the contours of a new international order are beginning to emerge as China's increasingly prominent 'sovereign wealth funds' (SWFs) play a key role in bailing out some of the US's largest financial institutions as they scramble to deal with massive losses accrued in various debt markets.

Ironically enough, China's accession to the WTO, which at the time seemed an unambiguous expression of American dominance, has played a significant part in the PRC's economic rise and at least some of the US's current problems. While there is a lively debate about the causes and significance of the US's trade deficit with China (Frankel, 2006; Hale and Hale, 2008), there is no doubt that China's concomitant accumulation of foreign currency reserves has given the PRC the wherewithal to play a prominent role as a source of investment, and as an increasingly important actor in the global economy. While this transformation in the relative standing of the US and China may not prove to be permanent, it does shed a revealing light on the forces that are shaping a rapidly evolving international political economy and the importance of historically contingent geopolitical forces. Although it is important not to overstate either China's capabilities or the extent of the US's decline, the latter's future policy options are likely to be more constrained by China's remarkable economic growth than we might have expected even a decade ago.

CHINA AND THE GLOBAL TRADE REGIME

The US is generally thought to enjoy a 'hegemonic' position in the international system (Agnew, 2005). While it is not possible to explore fully the complex nature of hegemony here (Beeson, 2006), a few simple points can be made. First, there is more to hegemony than simple military or material dominance: ideas matter, and the support or acquiescence of other states can significantly reduce the transaction costs associated with dominance and/or regime maintenance. For much of the post-war period, the international order the US effectively created and sustained appeared to reflect the values of American policymakers and further the interests of US-based economic actors (Ikenberry, 2001; Latham, 1997). In this regard, the influential organizations created at Bretton Woods seemed like the institutionalized expression of American primacy.

In some ways, China's accession to the WTO does mark a major 'victory' for the US. China's entry represented the symbolic and tangible end of any effective alternative to the almost universal adoption of some form of capitalism – even if there are important continuing differences about the way that capitalism is actually organized within national borders (Hall and Soskice, 2001). The record of Chinese participation in the WTO since it became a member in late 2001 also suggests that it has been

'socialised' into appropriate behavior in precisely the way that many either expected or hoped (Johnston 2008). As Margaret Pearson (2006: 256) points out, the evolving structure of the Chinese economy, and the importance of continuing access to markets in the US in particular have meant that, far from being a champion of 'developing country' interests, China 'does not seriously reject the status quo power structure of the WTO'.

And yet, while the ideational influence of 'Western' norms on Chinese elites is significant and potentially to the US's advantage, making an assessment about precisely which country has benefited most from China's participation in the WTO is surprisingly complex. Even though WTO membership has necessitated painful domestic adjustments like constitutional reform and increased pressure on China's uncompetitive state owned enterprises (Fewsmith, 2001), foreign direct investment (FDI) has grown rapidly, and has played a significant part in accelerating the rate of economic expansion and the growth of exports to the US in particular. At one level, this can be thought of as a positive sum game, in that both the US and China have arguably both benefited from this relationship: China gets the catalytic impact of greater investment from the US and assured access to American markets, while US-based companies can take advantage of China's massive pool of low-cost labor, and of the cheap consumer goods they produce for export. However, it is important to highlight three further aspects of this relationship which suggest that the long-term benefits are moving in China's direction. First, while FDI from the US and elsewhere has been an important stimulus to development in China, it has accounted for only 5% of capital formation (Bergsten *et al.*, 2006: 21). In other words, like Japan before it, China has relied on a remarkably high level of domestic savings to finance investment – a position that stands in marked contrast with the US's current situation.² Indeed, in Giovanni Arrighi's (2007: 353) view, China's cheap labor and potential markets meant that 'foreign (especially US) capital needed China far more than China needed foreign capital'.

The potential importance and implications of this claim can be seen in a second, related consideration: the trade and investment relationship between the US and China highlights the latter's importance to the profitability of American corporations like Wal-mart,³ and means that a powerful pro-China lobby has been created in the US, limiting the US policymakers' options as a consequence. Finally – and despite the concerns that are raised about the depth of the industrialization process in China and the amount of technological transfer that is actually occurring (Steinfeld, 2004) – some commentators are concerned that American companies are giving up their technological advantage as part of the investment process. David Lei (2007: 24), for example, argues that 'U.S. firms have essentially ceded their leadership positions across dozens of industries to eager suppliers that have

used the outsourcing arrangement as a vehicle for their own long-term learning and technology accumulation'.

Given the scale, complexity and rapid evolution of the Chinese economy, it is not surprising that the empirical record tends to be contradictory and unclear at times. What is more certain, however, and what has attracted increased political attention in the US and elsewhere as a consequence, is the scale of China's expanding trade surplus with the US. The US runs an enormous overall trade deficit, but since China replaced Japan as the largest single contributor to this 'problem'⁴ it has become the focus of growing protectionist pressures in the US. The fact that more than a quarter of 'China's exports to the US are actually generated by subsidiaries of American multinationals' (Hale and Hale, 2008: 58) has done nothing to defuse political sensitivity in the US. But no matter how discomfiting the headlines may be for US political leaders, the reality may be that their ability to achieve a political resolution of this issue is increasingly circumscribed.

One of the most striking illustrations of both the rapid evolution of China's place in the international economy and of the shifting balance of economic power between the US and China has been the latter's rapidly expanding foreign currency reserves derived from its trade surplus with the US. This revealing development is given added significance by the fact that the vast majority of this money has been reinvested in the US, primarily in Treasury bonds.⁵ Without continuing inflows of capital from initially Japan and more recently China, the ability of the US government to fund its budget deficits so cheaply, and the ability of America's consumers to continue propping up the American economy in quite the way they have, would be in even greater jeopardy (Murphy, 2006). In the long-term, the sustainability of this relationship is now in question. In the short-term, as successive Treasury Secretaries have discovered, there is little that the US can do to force the PRC government to revalue its currency or make other potentially painful adjustments to alleviate American problems (Presek, 2007).

The failure of American officials to secure the compliance of their Chinese counterparts in making such adjustments is a striking indication of the limits of US influence. But the more significant long-term story may be about the continuing, remarkably rapid, evolution of the international political economy and China's place in it: China's initial trade expansion and success is also transforming the basis of its overall integration into, and role in, the wider world economy. Crudely put, this marks a shift from a form of international integration primarily based in trade, to one that is increasingly centered in global finance. Equally significantly, in the same way that China's leaders learned to adjust to, and take advantage of, the global trading system, they are also beginning to take a much more active role in the financial sector.

CHINA AND GLOBAL FINANCE

China now has the largest foreign exchange reserves in the world, totaling some \$1.5 trillion, up from \$1 trillion only a year before (*The Economist*, 2008a). But it is not simply the sheer scale of China's material assets that makes them significant: China is unencumbered by the sort of strategic and foreign policy constraints that generally made Japan – its regional rival and former developmental champion – unable to act decisively in pursuit of its own 'national interest', especially where this might be seen as conflicting with the preferences of the US (Samuels, 2007). China suffers from fewer inhibitions, and over the last decade or so has demonstrated a surprisingly effective capacity to develop a sophisticated foreign policy. Significantly, China's transformed economic position is facilitating the transformation of emerging material or structural power into political influence and agential capacity.

The idea that China might possess 'soft power' still seems outlandish to many given the PRC's association with authoritarianism and its still modest levels of overall development. And yet China has not only established itself as an effective actor in, and supporter of, multilateral institutions in a way that stands in conspicuous contrast with the Bush administration, it is also becoming associated with an alternative model of development that resonates powerfully with some states in Asia, Africa and Latin America (Kurlantzick, 2007; Ramo, 2004). However, China's growing influence also highlights the tensions and uncertainties in the bilateral relationship as it is currently configured.

In what was described by former US Treasury secretary Larry Summers as the 'balance of financial terror', China and Japan in particular have been willing to invest huge sums – an estimated trillion dollars in China's case – in US securities to underwrite the US budget and support overall consumption patterns (Ellis, 2007). For some observers, US indebtedness is, paradoxically enough, actually a manifestation of strength and structural leverage in the global economy. According to Panitch and Gindin (2004: 63), for example, the:

... increase in international holdings of highly liquid US Treasury bills not only had a major impact on furthering the development of massive secondary markets in bonds, but lay at the core of the re-constituted form of American imperial rule. It allowed the American state to consistently rely on global financial reserves to expand its – and capitalism's – global reach.

This argument had much to recommend it while Japan and China were passive investors and too intimidated by the possible consequences of their own actions to undermine the status quo; any suggestion that they might be seriously re-thinking their commitment to the US economy and

currency might trigger a disastrous collapse in the value of the American dollar and the ability of the US market to continue absorbing Asian exports (Beeson, 2007). However, the recent rapid decline in the value of the dollar has focused the attention of Chinese (and other) policymakers on the risks involved in holding dollar-denominated assets. As Chinese Premier Wen Jiabao recently observed: 'We are worried about how to preserve the value of our reserves'. Well they might be. Although the precise scale and composition of China's foreign exchange reserves is unclear, given that it is generally thought to be above \$1400 billion, of which two-thirds is US dollars, this is plainly a significant problem and level of exposure for China's government (Dickie, 2007).

The risk of triggering a currency crisis involving an even more rapid depreciation of the dollar has meant that the PRC government has, understandably enough, been keen to offer rhetorical support for the dollar's status as a global reserve currency (McGregor, 2007). Significantly, however, the actions of China's policymakers tell a different story and reflect a decline in confidence about the US economy, a sophisticated appreciation of the need to diversify risk, and a recognition that they can combine capitalist dynamics with *realpolitik*. At one level this is manifest in China's participation in the growing move out of the dollar and into other currencies, especially the euro (Peters, 2007). This is significant enough in itself, because such a move, should it persist, will undermine the US's 'seigniorage' privileges,⁶ increase the associated cost of borrowing, and generally undermine the centrality of the US economy in the international system. Of potentially equal long-term significance, however, is the fact that Chinese policymakers have shifted from being passive to active investors and are rapidly expanding their activities – and the impact of their form of capitalism – on global markets.

'STATE CAPITALISM' AND THE RISE OF SOVEREIGN WEALTH FUNDS

The rise of China and the growing economic power of resource-based economies like Russia, Venezuela and the oil-rich states of the Middle East, highlight the growth or persistence of illiberal forms of economic and political development (Gat, 2007; Zakaria, 2003). It is no longer eccentric to argue that neoliberal forms of capitalism may continue to be rejected in east Asia and elsewhere (Beeson and Islam, 2005), or that countries like China may successfully 'marry capitalism with a large state role in the economy' (Rachman, 2008). In short, the increasing prominence of 'state capitalism', fuelled by a powerful combination of economic nationalism and the proceeds of trade and resource revenues, is overturning assumptions about the direction of economic development and the best methods

of achieving it (Bremmer, 2008). The growth of sovereign wealth funds is emblematic of this new reality.

Although SWFs have been around for decades,⁷ the recent emergence of the China Investment Corp. (CIC) has provoked particular attention because of its potential 'strategic' role on behalf of the state. Such fears have been reinforced because of the sheer scale of extant SWFs. The recent growth in the size and number of SWFs is in large part a consequence of the overall growth of global foreign exchange reserves, which now total some \$5.75 trillion, with Asia alone accounting for \$3.66 trillion (Lyons, 2007: 4). What made the establishment of the PRC's first SWF especially significant was not simply its potential scale given China's rapidly expanding foreign reserves, but recent conflict with the US over other potentially 'strategic' investments. When the China National Offshore Oil Corporation (CNOOC) announced an unsolicited bid for the US-based Unocal Corporation, for example, it sparked a major debate about the national security implications of such a move in the US, and an unabashedly protectionist policy response.

The US found itself in the ideologically awkward position of having to oppose an ostensibly commercial investment on national interest grounds – precisely the sort of argument it had spent years discouraging developing countries from adopting in response to the investment strategies of US-based multinational corporations (Schortegen, 2006). The priority attached to energy security by the Bush administration and the dependence of the US economy on oil (Klare, 2004), especially when combined with a perception that China was increasing its geopolitical influence at US expense (Sutter, 2005), meant that a clash with China of some sort was almost inevitable. What is surprising, perhaps, is the muted nature of the US response thus far – especially as far as China's non-resource-based investments are concerned.

The CIC was established with an initial capital base of \$200 billion, and its first major investment – a \$3 billion, 9.9% stake in Blackstone, a US buy-out firm – gave an indication of the breadth and ambition of China's evolving strategy. In a significant attempt to defuse a Unocal-style protectionist backlash, the Chinese government took the 'unusual step' of giving up its voting rights (Guerrera, 2007). However, two developments have changed the underlying dynamic and balance of influence between US and Chinese interests since the Blackstone deal was struck. On the one hand, the Chinese have seen the value of their investment drop by 25% as a consequence of a general decline in equity values brought on by the sub-prime crisis in the US. On the other, this experience has led the CIC to take a much more assertive line in subsequent negotiations with distressed American financial institutions (Barker, 2007).

Although it is not possible at the time of writing to know quite how deep, prolonged or painful the impact of the US's debt crisis will prove

to be,⁸ some things seem clear already. First, the status of some of the most prominent financial institutions in the heartlands of Western capitalism have been profoundly altered: Morgan Stanley, Merrill Lynch, Bear Sterns,⁹ Barclays, Standard Chartered and HSBC all found themselves having to accept capital injections from SWFs in Asia and the Middle East. Most spectacularly, perhaps, Citigroup, the largest financial institution in the world, posted losses of nearly \$10 billion in a single quarter, forcing it to go cap-in-hand to SWFs in China and elsewhere for urgent assistance (Thomas, 2008). The most acute problem for the distressed Western financial institutions, however, was not that their new dependence on, and loss of control to, SWFs and other overseas financial institutions would continue, but that it wouldn't. It is becoming clear that many foreign investors are concerned about the possibility of throwing good money after bad in American markets.¹⁰

Such concerns have seen a noteworthy new development in China's rapidly evolving foreign investment strategies which, while they may not have as immediate an impact on the US in the short-term, are illustrative of an international order that is shifting against the US and shoring up China's relative position. The Chinese government-backed company Chinalco provoked surprise and consternation when – in a noteworthy collaboration with the US company Alcoa – it spent \$14 billion to acquire a 12% share in Rio Tinto, making BHP Billiton's proposed takeover (and potential dominance of a resource sector upon which the PRC is highly dependent), that much more difficult (Trounson, 2008). Not only was this the largest ever cross border investment by a Chinese company, but it signaled both a growing capacity to take part in such corporate power plays, and a lively appreciation of the need to secure long-term resource supplies. Indeed, so savvy have Chinese officials become as a consequence of their integration into the conduits of Western capitalism that there was a real possibility that they would attempt to take legal action against BHP on the grounds of anti-competitive behavior (Webb and Schneyer, 2008).

Some might see such behavior as an indicator of the US's continuing hegemonic power and the pervasive influence of American legal norms and practices (Kelemen and Sibbitt, 2004). While there is something in this argument, the ability of Chinese public officials to turn such mechanisms to their advantage should not be underestimated. There is, however, a more traditional and unambiguous expression of the US's declining influence which China's recent investment in Rio Tinto highlights: not only are such strategic investments designed to ensure long-term resource security, but they are also presenting acute foreign policy challenges for countries like Australia, where such investments are taking place (Uren, 2008).

When formerly stalwart allies like Australia begin to recalibrate their foreign policy to reflect new economic and strategic realities, clearly

something important is changing in the region. China has become a vital, if not the single most important, economic partner for much of east Asia, and this helps to explain its growing influence and acceptance as a major diplomatic force in the region (Lampton, 2007). The PRC's highly effective diplomatic offensive in the region stands in marked contrast to that of the US, and has further consolidated China's influence and importance as a consequence (Bergsten *et al.*, 2006: 133–34). If China's remarkable growth trajectory can be sustained in the face of profound environmental constraints – a very big 'if', and one that is still not given the attention it deserves (but see, Economy, 2007) – then we might expect the long-run transformation in its influence to continue.

CONCLUDING REMARKS

A belief that some sort of tectonic shift in the structure of the international system is underway and gathering pace has now become an increasingly uncontroversial view. Some of the most influential champions of Western free market capitalism are beginning to acknowledge the damage that has been done to the US's material and ideational standing as a consequence of the Bush administration's foreign policies in general and the recent crisis of American capitalism in particular. As Martin Wolf (2007) of the *Financial Times* observed:

what is happening in credit markets today is a huge blow to the credibility of the Anglo-Saxon model of transactions-orientated financial capitalism. A mixture of crony capitalism and gross incompetence has been on display in the core financial markets of New York and London.

This matters for two reasons. First, the problems in the US economy and the increased reliance on China to underwrite its overall economic position and bail-out distressed financial institutions is a dramatic and unambiguous illustration of how much has changed in only the last decade or so. This material transformation in the relative position of the two economies is important enough in itself, but it is arguably the longer-term ideational shift that underpins a second, even more significant consequence of recent developments. Not so long ago, the US was able to encourage or impose the array of policy prescriptions subsumed under the rubric of the 'Washington consensus' because its economy was dominant, its concomitant political leverage was immense, and its capacity to institutionalize and operationalize its policy preferences was unrivalled. In such circumstances, it was difficult for critics of the neoliberal orthodoxy to get much of a hearing, much less carve out the policy space in which alternative paradigms might be adopted (Wade, 2003). Now, however, things look rather different. Not only is there an alternative 'Beijing

consensus' emerging around China's pragmatic, state-centric approach to development, but the unparalleled development of the Chinese economy is dramatically reinforcing its material influence and even its ideational appeal.

Given that China has only been integrated into the global economy and an active participant in its international institutions for a few decades, its achievements and pace of growth are remarkable and unprecedented. If it can be sustained, then its rise and the US's relative decline are likely to be the key dynamics that will reshape the international system. If it can't, China's problems rather than its strengths may well be what will preoccupy its – and everyone else's – policymakers. For better or worse, coming to terms with China is likely to be the defining issue of the twenty-first century.

ACKNOWLEDGEMENTS

Thanks to Shaun Breslin, Phil Cerny and *RIFE's* reviewers for commenting on earlier versions of this paper; the usual caveats apply.

NOTES

- 1 There is a substantial literature on this issue. Representative samples include Wohlforth (2002) and Kagan (1998).
- 2 Increased levels of foreign ownership in the US are leading some prominent figures to fret about long-term security and autonomy. Larry Summers (2004: 48) argues that 'in a real sense, the countries that hold US currency and securities in their banks also hold US prosperity in their hands'.
- 3 Wal-mart alone is China's eighth largest trading partner and its low-cost business strategy would not be as feasible without the China connection. See Hughes (2005: 94).
- 4 There are some widely recognized problems in measuring and/or making sense of trade flows in an environment where trade is often replaced by FDI. See Quinlan and Chandler (2001).
- 5 The details of China's investments are unclear, but it is estimated that in addition to \$600 billion of US Treasury bonds, it may have another \$100 billion exposure to the US's troubled mortgage-backed securities. See Bradsher (2007).
- 6 Seigniorage refers to the difference between the face value of money and the cost of actually producing it. The US's international seigniorage refers to benefits that accrue from the dollar's cross-border circulation and the fact that such activity effectively generates a subsidized or interest-free loan from abroad. An international shift away from the dollar will erode both this benefit and an important source of US hegemony. See Cohen (1998: 123–25).
- 7 Lyons (2007) suggests that began in the early 1950s in the Middle East. The combined assets of the top 20 SWFs are already estimated to be over \$2 trillion, and this figure is expected to rise rapidly.
- 8 Some seasoned observers considered it 'the worst crisis in 30 years'. See Hutton (2007).
- 9 Only fortunate timing allowed China's Citic Securities to avoid losing money when Bear Stearns collapsed. Attitudes in Asia have subsequently become

far more critical as a consequence of Wall Street's problems and the apparent fragility of Western finance, however. See *The Economist* (2008b).

- 10 As Gillian Tett (2008) observed, 'having stepped into the breach so visibly late last year, some funds are now getting jitters. In China, there are rising complaints that funds are foolish to shovel cash directly into risk-laden US banks when they could be using it in better ways, such as purchasing western commodity or manufacturing groups'.

NOTES ON CONTRIBUTOR

Mark Beeson is Professor of International Politics in the Department of Political and International Studies at the University of Birmingham. He has also taught at Murdoch, Griffith, York (UK) and the University of Queensland. His most recent/forthcoming publications include *Institutions of the Asia-Pacific: ASEAN, APEC and Beyond* (Routledge, 2009), *Securing Southeast Asia: The Politics of Security Sector Reform* (with Alex Bellamy, Routledge, 2008), and *Regionalism, Globalization and East Asia: Politics, Security and Economic Development* (Palgrave, 2007).

REFERENCES

- Agnew, J. (2005) *Hegemony: The New Shape of Global Power*, Philadelphia, PA: Temple University Press.
- Arrighi, G. (2007) *Adam Smith in Beijing: Lineages of the Twenty-First Century*, London: Verso.
- Barker, T. (2007) 'On Wall Street: Sovereign Wealth Funds to Drive Hard Bargain', *Financial Times*, 16 November.
- Beeson, M. (2006) 'American Ascendancy: Conceptualising Contemporary Hegemony', in M. Beeson (ed.) *Bush and Asia: America's Evolving Relations with East Asia*, London: Routledge, pp. 3–23.
- Beeson, M. (2007) *Regionalism, Globalization and East Asia: Politics, Security and Economic Development*, Basingstoke: Palgrave.
- Beeson, M. and Islam, I. (2005) 'Neo-Liberalism and East Asia: Resisting the Washington Consensus', *Journal of Development Studies*, 41(2): 197–219.
- Bergsten, C. F., Gill, B., Lardy, N. R. and Mitchell, D. (2006) *China: The Balance Sheet*, New York: Public Affairs.
- Bradsher, K. (2007) 'Dollars to Spare in China's Trove', *New York Times*, 6 March.
- Bremmer, I. (2008) 'The Return of State Capitalism', *Survival*, 50(3): 55–64.
- Breslin, S. (2004) 'Globalization, International Coalitions, and Domestic Reform', *Critical Asian Studies*, 36(4): 657–75.
- Cohen, B. J. (1998) *The Geography of Money*, Ithaca, NY: Cornell University Press.
- Dickie, M. (2007) 'China Voices Alarm at Dollar Weakness', *Financial Times*, 20 November.
- Economy, E. C. (2007) 'The Great Leap Backwards: The Costs of China's Environmental Crisis', *Foreign Affairs*, 86(5): 38–59.
- Ellis, S. (2007) 'Tipping Balance of Financial Terror', *The Australian*, 30 August.
- Fewsmith, J. (2001) 'The Political and Social Implications of China's Accession to the WTO', *China Quarterly*, 167: 573–91.
- Frankel, J. (2006) 'Could the Twin Deficits Jeopardize US Hegemony?', *Journal of Policy Modelling*, 28(6): 653–63.
- Gat, A. (2007) 'The Return of Authoritarian Great Powers', *Foreign Affairs*, 86(4): 59–69.

- Guerrera, F. (2007) 'Beijing to Buy Blackstone Stake for \$3bn', *Financial Times*, 20 May.
- Hale, D. D. and Hale, L. H. (2008) 'Reconsidering Revaluation: The Wrong Approach to the US–Chinese Trade Imbalance', *Foreign Affairs*, 87(1): 57–66.
- Hall, P. A. and Soskice, D. (eds) (2001) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*, Oxford: Oxford University Press.
- Hughes, N. C. (2005) 'A Trade War with China?', *Foreign Affairs*, 84(4): 94–106.
- Hutton, W. (2007) 'The Worst Crisis I've Seen in 30 Years', *The Observer*, 4 November.
- Ikenberry, G. J. (2001) 'American Power and the Empire of Capitalist Democracy', *Review of International Studies*, 27: 191–212.
- Johnston, A. I. (2008) *Social States: China in International Relations, 1980–2000*, Princeton, NJ: Princeton University Press.
- Kagan, R. (1998) 'The Benevolent Empire', *Foreign Policy*, 111: 24–35.
- Kelemen, R. D. and Sibbitt, E. C. (2004) 'The Globalization of American Law', *International Organization*, 58: 103–36.
- Klare, M. T. (2004) *Blood and Oil: How America's Thirst for Petrol is Killing Us*, London: Penguin.
- Kurlantzick, J. (2007) *Charm Offensive: How China's Soft Power is Transforming the World*, New Haven, CT: Yale University Press.
- Lampton, D. M. (2007) 'The Faces of Chinese Power', *Foreign Affairs*, 86(1): 115–27.
- Latham, R. (1997) *The Liberal Moment: Modernity, Security, and the Making of Postwar International Order*, New York: Columbia University Press.
- Lei, D. (2007) 'Outsourcing and China's Rising Economic Power', *Orbis*, 51(1): 21–39.
- Lyons, G. (2007) 'State Capitalism: The Rise of Sovereign Wealth Funds', mimeo, Standard Chartered Bank, in house publication, 15 October.
- McGregor, R. (2007) 'China Affirms Dollar's Reserve Status', *Financial Times*, 12 August.
- Murphy, R. T. (2006) 'East Asia's Dollars', *New Left Review*, 40: 39–64.
- Panitch, L. and Gindin, S. (2004) 'Finance and American Empire', in L. Panitch and C. Leys (eds) *The Socialist Register: The Empire Reloaded*, London: Merlin Press, pp. 46–80.
- Pearson, M. M. (2006) 'China in Geneva: Lessons from China's Early Years in the World Trade Organization', in A. I. Johnston and R. S. Ross (eds) *New Directions in the Study of China's Foreign Policy*, Stanford, CA: Stanford University Press, pp. 242–75.
- Peters, J. W. (2007) 'Appeal of Euro Strengthens Against US Dollar', *International Herald Tribune*, 1 January.
- Presek, W. (2007) 'US Financial Clout Loses Sway', *International Herald Tribune*, 4 April.
- Quinlan, J. and Chandler, M. (2001) 'The US Trade Deficit: A Dangerous Obsession', *Foreign Affairs*, 80(3): 87–97.
- Rachman, G. (2008) 'Illiberal Capitalism: Russia and China Chart their Own Course', *Financial Times*, 8 January.
- Ramo, J. C. (2004) *The Beijing Consensus*, London: The Foreign Policy Centre.
- Samuels, R. J. (2007) *Securing Japan: Tokyo's Grand Strategy and the Future of East Asia*, Ithaca, NY: Cornell University Press.
- Schortegen, F. (2006) 'Protectionist Capitalists vs. Capitalist Communists: CNOOC's Failed Unocal Bid in Perspective', *Asia Pacific: Perspectives*, 6(2): 2–10.
- Steinfeld, E. S. (2004) 'China's Shallow Integration: Networked Production and the New Challenges for Late Industrialization', *World Development*, 32(11): 1971–87.

BEESON: CHINA, THE US AND EVOLUTION OF POLITICAL ECONOMY

- Summers, L. H. (2004) 'America Overdrawn', *Foreign Policy*, July/August: 46–9.
- Sutter, R. G. (2005) *China's Rise in Asia: Promises and Perils*, Lanham, MD: Rowman & Littlefield.
- Tett, G. (2008) 'Western Banks Face SWF Backlash', *Financial Times*, 7 February.
- The Economist* (2008a) 'Official Reserves', 31 January.
- The Economist* (2008b) 'Pots and Kettles', 15 May.
- Thomas, L. (2008) 'Buddy, Can You Spare a Billion?', *New York Times*, 16 January.
- Trounson, A. (2008) 'China Swoops on Rio Tinto in \$16bn Raid', *The Australian*, 2 February.
- Uren, D. (2008) 'Swan Reins in Foreign Investors', *The Australian*, 18 February.
- Wade, R. H. (2003) 'What Strategies are Viable for Developing Countries Today? The World Trade Organization and the Shrinking of "Development Space"', *Review of International Political Economy*, 10(4): 621–44.
- Webb, T. and Schneyer, J. (2008) 'Iron Men Fight for Control of the Earth', *The Observer*, 3 February.
- Wohlforth, W. C. (2002) 'US Strategy in a Unipolar World', in G. J. Ikenberry (ed.) *America Unrivaled: The Future of the Balance of Power*, Ithaca, NY: Cornell University Press, pp. 98–118.
- Wolf, M. (2007) 'Why the Credit Squeeze is a Turning Point for the World', *Financial Times*, 11 December.
- Zakaria, F. (2003) *The Future of Freedom: Illiberal Democracy at Home and Abroad*, New York: W. W. Norton.

Emerging World Order? From Multipolarity to Multilateralism in the G20, the World Bank, and the IMF*

Politics & Society
39(3) 347–378
© 2011 SAGE Publications
Reprints and permission:
sagepub.com/journalsPermissions.nav
DOI: 10.1177/0032329211415503
<http://pas.sagepub.com>


Robert H. Wade¹

Abstract

Many developing and transitional countries have grown faster than advanced countries in the past decade, resulting in a shift in the distribution of world income in their favor. China is now the second largest economy in the world, behind the United States and ahead of Japan. As the relative economic weight of China and several others has come to match or exceed that of the middle-ranking G7 economies, the world economy has shifted from “unipolar” toward “multipolar,” less dominated by the G7. How is this change being translated into changes in authority and influence within multilateral organizations like the G20, the World Bank, and the International Monetary Fund (IMF)? Alarm bells are ringing in G7 capitals about G7 loss of influence. According to a WikiLeaks cable from the senior U.S. official for the G20 process, from January 2010, “It is remarkable how closely coordinated the BASIC group of countries [Brazil, South Africa, India, China] have become in international fora, taking turns to impede US/EU initiatives and playing the US and EU off against each other.”

This essay suggests that the shift in power is much smaller than the headlines or private alarm bells suggest. The United States remains the dominant state, and the G7 states together continue to exercise primacy, but now more fearfully and

¹London School of Economics, London, UK

Corresponding Author:

Robert H. Wade, London School of Economics, Houghton St, London WC2A 2AE
Email: R.Wade@lse.ac.uk

*This article is part of a special section of *Politics & Society* on “Global Governance Reconsidered” in the aftermath of the 2007–2009 global financial crisis. The papers were initially written for a series of workshops organized by Kate Macdonald, Shelley Marshall, and Sanjay Pinto in late 2009 at Harvard University, the University of Melbourne, and the Max Planck Institute for the Study of Societies in Cologne. The section is made up of an introduction followed by contributions by John Quiggin, Jose Antonio Ocampo, and Robert Wade.

defensively. China is split between asserting itself as “the wave of the future” and defending itself as too poor to take on global responsibilities (it is roughly 100th in the per capita income hierarchy). The combination of G7 defensiveness and emerging states’ jealous guarding of sovereignty produces a spirit of Westphalian assertion in international fora, or “every state for itself.” On the assumption that the world economy is in a transitional period, the article suggests reforms in the G20 and the World Bank that would boost their role and legitimacy as multilateral organizations in a more multipolar world.

Keywords

global governance, multipolarity, multilateralism, G20, World Bank, IMF

Until the lions have their own historians, the history of hunting will glorify the hunters.

Swahili proverb

Growth has gone south; debt has gone north.

Quip about the long Atlantic slump

In April 2010, Robert Zoellick, president of the World Bank, gave a speech hailed by some as the most important speech of a World Bank president since Robert McNamara’s in 1973, when McNamara set poverty reduction as the Bank’s new mission. Zoellick’s main point was the end of the Third World—the end of the distinction between developed and developing countries.

If 1989 saw the end of the “Second World” with Communism’s demise, then 2009 saw the end of what was known as the “Third World.” We are now in a new, fast-evolving multipolar world economy—in which some developing countries are emerging as economic powers; others are moving towards becoming additional poles of growth; and some are struggling to attain their potential within this new system.¹

Zoellick was in effect saying that the distribution of material power in the interstate system has become more fluid in the past decade than at any time since the beginning of the Cold War, and that we are finally at the end of the Truman era, which began in the early postwar years when President Truman called on the West to take up the challenge of using “our” knowledge and resources to deliver development to the rest of the noncommunist world. From a largely unipolar (noncommunist) world, with the United States as hegemon, we have moved to “a new, fast-evolving multipolar world economy” as economic weight and political power has flowed east and south. Zoellick went on to indicate how this multipolar world economy requires changes in the governance

and operations of the World Bank to make it more multilateral, and less dominated by the Western states.

Zoellick implied a hopeful answer to a basic question: Will the international system be able to induce rule-bound cooperation between states, given the falling concentration of economic activity and political power in the West and the growing number and importance of “global problems” (including global warming, regulation of cross-border trade and finance, migration, criminal networks, nuclear proliferation, cyberwar, and many more)? Will the aging post–World War II legacy organizations, like the World Bank and the International Monetary Fund (IMF), be able to reform themselves so as to reflect the new multipolarity, while also strengthening their ability to provide public goods to their borrowers and the world economy at large? Will Southern states—on the other side of the Truman divide—become sources of initiative in interstate organizations, not just participants and takers?

While Zoellick implied a yes, it is equally plausible that the growing number and diversity of states with enough weight in the world economy to exercise voice about international governance has a *centrifugal* effect, intensifying assertions of Westphalian sovereignty, and that Southern states show no more inclination to take on leadership roles than in the past, even as they claim a larger presence.

In other words, economic weight and influence in governance are different things. The “rise of (some of) the rest,” combined with surging global problems, may not induce the established states to compromise with the newcomers and may not induce the newcomers to compromise with the established states or among themselves. All the more so for those countries in economic slump, with populations facing interrupted rising expectations, whose governments like to respond to accumulating social anger by blaming outsiders. And all the more so for fast-growing China, with hundreds of millions of people experiencing relative deprivation as millions of fellow citizens become super-rich, while an authoritarian government tries to suppress news of domestic abuses of power and bristles at criticism from other states, interpreting it as infringement of sovereignty.²

The outcome may be “multipolarity without multilateralism,” as newly empowered states go their own way. Respect for the dissenting views of the now more numerous players may shrink the scope of cooperative solutions to global issues and tend toward stalemate.

The G20 and the Bretton Woods organizations have their very identities rooted in inclusion of both Northern and Southern states. Governance reforms in all three since 2008 have been heralded as major advances in multilateralism. When the G20 was upgraded from finance ministers level to heads-of-government level in November 2008 (in the wake of the fall of Lehman Brothers and the onset of the global financial crisis), President Nicolas Sarkozy of France enthused, “The G20 foreshadows the planetary governance of the twenty-first century.” Stewart Patrick of the U.S. Council on Foreign Relations describes the G20 as “the most significant advance in multilateral policy coordination since the end of the Cold War.”³ Similar enthusiasm greeted the governance reforms at the World Bank and IMF announced in 2010. How should we interpret these claims?⁴

First, I will introduce a more general discussion of polarity and governance, then return to the organizations themselves.

The Starting Point: The U.S.-Dominated Unipolar System

For most of the second half of the twentieth century, the United States was by far the largest national economy in terms of gross domestic product (GDP) and one of the most prosperous in terms of average income. It exercised political primacy in the noncommunist world, using its position to promote a liberal, market-based economic order.

The Bretton Woods system of the postwar decades up to the early 1970s did impose some constraints on U.S. policy through the dollar–gold link, but since its breakdown, the United States has been largely unconstrained in its monetary and fiscal policies by the need to take account of other states' interests. For example, leading up to Paul Volcker's decision to hike the Federal Reserve rate in 1979 (to curb U.S. inflation), the Fed did no analysis of the impact on the rest of the world, and specifically not on the impact on Latin America—which, having loaded up on debt from U.S. banks, was plunged into a decade-long debt-and-development crisis.⁵

Indeed, for the whole period from the 1940s to the 2000s, U.S. monetary policy was set almost entirely for U.S. objectives, although it strongly affected global economic conditions. Thanks to its currency also being the main international reserve currency, the United States was able to run current account deficits every year from 1992 to 2010, eighteen years—its deficit in 2008 being about the size of India's GDP. These deficits strongly affected financial stability and economic growth in the rest of the world, but the rest of the world had no say in U.S. policies. As a senior U.S. official remarked, "The dollar is our currency but your problem"; or in the more colorful language of President Richard Nixon, "I don't give a [expletive] about the lire!"

The United States has exercised predominant power in the IMF and the World Bank, crystallized in its monopoly of the presidency of the Bank and the number two position at the IMF, and its veto over decisions requiring a supermajority, the only state with such power. The veto enables the United States to block changes on its own, without the support of even one other state. Conversely, the IMF has always been very weak in its ability to discipline the United States. Joe Stiglitz tells how when he was chair of the Council of Economic Advisors he saw the Treasury ostentatiously toss the Fund's Article IV consultation reports on the U.S. economy in the rubbish bin.⁶

U.S. choices were at the center of everything, not just in American eyes but also in European eyes. When it was the turn of a European country to chair the G7 or G20 meetings, the sherpa from that country routinely consulted his U.S. counterpart before consulting other Europeans. Only around 2000 did the German sherpa make a determined effort to consult with other Europeans before consulting with the United States.⁷

Table 1. Share of Developing and Transitional Countries in World Output, 1980–2009 (in percentages)

World Output	1980	1990	2000	2005	2009
MKT	26	18	23	26	33
PPP	32	33	40	45	50

Source: World Bank, *World Development Indicators*.

Note: MKT refers to output converted at market exchange rates; PPP refers to output converted at purchasing power parity exchange rates.

This is the substance behind *Financial Times* columnist Philip Stevens' summary remark, "Membership of the west once meant doing whatever Washington said."⁸

Rise of Multipolarity

The rise of multipolarity (in the economic rather than bombs-and-rockets sense) means a fall in the concentration of economic activity in the international system and, within this, the rise of concentrations outside the previous core. The trend can be made more concrete by means of several indicators.

1. *Share of G7 (12 percent of world population) in global GDP:* In 2000, the G7's share was 72 percent; by 2011 it will have fallen to 53 percent, according to the IMF (measured at market exchange rates).
2. *China's rise:* Chinese output per head to that of the United States rose from about 6 percent to 22 percent between 1980 and 2008 (the proportion in 2008 was roughly similar to Japan's in the late 1940s).
3. *Whose monetary policy matters to the rest of the world?* Ten years ago, the world paid attention to U.S. and EU monetary policy, and nobody outside China paid attention to China's monetary policy. Today China's monetary policy is closely watched, especially in New York; Washington, D.C.; and London.
4. *Share of developing and transitional countries (DTCs) in world output:* Between 2000 and 2009, the share of DTCs in world output rose by 10 percentage points, from 23 percent to 33 percent (measured at market exchange rates) and from 40 percent to 50 percent measured in purchasing power parity dollars. See Table 1.
5. *South-South trade:* In 1997, the ten biggest Asian exporters (excluding Japan) sent 46 percent of their exports to the United States, the EU, and Japan; in 2009, only 36 percent, the difference going to developing countries and oil exporters. China is now Brazil's biggest trading partner, displacing the United States from its long-held top spot.

6. *EU and euro*: The EU, for all its recent travails, is slowly becoming more cohesive than it was; and the euro is slowly becoming the world's second main international reserve currency. (The share of the euro in world foreign exchange reserves rose from 18 percent in 1999 to 27 percent in 2009.) So the increasing economic cohesion in Europe—together with its sheer economic weight in the world economy—makes it a separate source of pressure on the international economic governance system.

For convenience, we can think of the new multipolarity in economic and financial affairs as involving three poles—the United States, the EU, and BRICs (Brazil, Russia, India, and China). This sets the context of the new Great Game, with four qualifications. First, the BRICs have little collective identity. The leaders of the four states met for the first time as a fraternity of rising powers as recently as June 16, 2009, in Russia. (However, for the past couple of years, the BRICs executive directors at the World Bank have met together once or twice a month, as have those at the IMF.) Second, when used as the third pole, BRICs have permeable boundaries and may include a larger number of states, including middleweights like Korea, Mexico, and Turkey. Third, the BASIC group (BRICs minus Russia and including South Africa) has also been meeting to concert actions in multilateral fora. Fourth, for some purposes, the operative G is the G2 (United States and China).

Stronger Multilateralism?

Has the big increase in the relative economic size of the world's southern poles translated into stronger multilateralism in global economic governance?

Several indicators might be used. One is entry of new states to apex governing forums (such as the expansion of the G7 to the G20). Another is increased voting power of Southern states in international organizations. A third might be new agreements on global issues subscribed to by many states of North and South.

We also have to distinguish modes of participation. One is "hegemonic incorporation," in which the organization becomes more inclusive, the larger body reaches agreements, but the agreements are scripted by the hegemon or hegemonic core.⁹ New members go along with the wishes of the dominant states and use their participation to secure national advantage within this constraint. A second mode is "multilateral cooperation," where member states are willing to compromise in order to reach agreements and initiatives that come from across the membership, not just from the old hegemonic core. A third is Westphalian assertion, where states assert national sovereignties in the form of "nos," yielding cooperation mainly for the purpose of blocking initiatives of others—which may be masked by agreement on fine words.

Participation in a given forum (such as the World Bank) will probably oscillate on a continuum between these modes, the center of gravity moving over time. And as multipolarity increases (as countries outside the old core become economically more powerful, and clusters of countries gravitate to form new poles), country clusters may act in

one mode internally (for example, cooperation or incorporation) and in another mode with other clusters in the same forum (for example, assertion).

The Multipolar Governance Dilemma

Multipolarity generates a higher premium on policy cooperation between sovereign states than a unipolar system does; but larger numbers of states with larger differences in their preferences, interests, and beliefs make cooperation more difficult to achieve and sustain. In the words of a report on the new U.S. national security strategy, “Strengthening ties is proving far harder than the Obama administration had bargained for, but it is difficult to see that it has any other choice.”¹⁰

This is the “multipolar governance dilemma.” On the face of it, the dilemma has so far proved not too difficult. The formation of the G20 at finance ministers level in 1999 and its upgrading to heads-of-government level in 2008; the governance reforms at the World Bank and IMF announced in 2010; the new global rules on banking supervision, known as Basel 3, approved by the G20 leaders at the Seoul summit in November 2010—these and other developments suggest a real expansion of multilateral cooperation.

But look a little deeper and it is not hard to find evidence across many domains that interstate cooperation has either stalled (exchange rates, the Doha trade round, global warming) or has labored mightily to produce a mouse (Basel 3, the Cancun climate change road map of December 2010).¹¹

As for leadership, a study of transnational institutional innovations in the past one-and-a-half decades comes to negative conclusions about the role of Southern states and nonstate actors. Looking at more than 50 cases of institutional innovation—including transgovernmental networks (e.g., in finance, and accounting), arbitration bodies (e.g., the World Bank’s Inspection Panel), multistakeholder bodies (e.g., Global Polio Foundation), and voluntary regulation (e.g., Marine Stewardship Council)—it finds a pronounced North-South governance gap:

Many of the programs rely on Southern participation and serve the interests of Southern stakeholders, [but] *none* of the innovations in transnational governance gathered here can be described as a Southern-led initiative. Instead, Northern actors have driven institutional innovation: states, NGOs [nongovernmental organizations], corporations, and international organizations. While some of the innovative institutions (e.g., the World Commission on Dams . . .) have been careful to try to ensure Southern participation, and many of the programs target policies in the global South, Southern leadership remains limited.¹²

Against this background, let us consider trends in the G20 and the Bretton Woods organizations.

G20

The G20, as noted, is a direct answer to the rise of multipolarity. It remains an informal grouping, a club. It is organized with an annually rotating chair and secretariat provided by the chair's government. What the G20 says and does depends heavily on the chair, or on the ability of others to manipulate and incentivize the chair.¹³

Origins

The East Asia/Russia/Brazil crisis of 1997–99, with the Long-Term Capital Management crisis in the middle, provoked panic in the High Command of world finance. Federal Reserve chairman Alan Greenspan declared in October 1998, “I have been looking at the American economy on a day-by-day basis for almost a half century, but I have never seen anything like this.”¹⁴ Panic prompted an upsurge of proposals for a “new international financial architecture” (NIFA). The G7 finance ministers and central bankers quickly realized that a larger deliberation group had to be convened. Otherwise they would be like the captain of the ship who stands at the wheel turning it this way and that, knowing that the wheel is not connected to the rudder.¹⁵

The Europeans wanted the expansion to take the form of the G7 plus five “out-reach” countries (the five invitees to be chosen ad hoc by the G7). The Americans and Canadians wanted a bigger and more representative grouping. This was an unusual response from the United States, whose general principle of multilateralism is “smaller and informal is better.” Behind the normative flag of “more representation,” the United States wanted to bring in more U.S. allies to counter the overrepresented Europeans, as part of a broader effort to de-Europeanize the governing boards of the IMF, the World Bank, and many other multilateral organizations in favor of DTCs.

The specific initiative came from Canadian Prime Minister Paul Martin and U.S. Treasury Secretary Lawrence Summers. The selection of the new members was made by Summers' deputy, Timothy Geithner (then in charge of international economic affairs) and his counterpart in the German Finance Ministry, Cio Koch-Weser, former managing director at the World Bank.¹⁶ In 1999, they had several transatlantic telephone calls, each equipped with a list of the world's countries and their GDP, population, trade, and the like. They proceeded down the list, ticking some countries and crossing others: Canada in, Spain out, South Africa in, Nigeria and Egypt out, Argentina in, Colombia out, and so on. They sent their list to the other G7 members. Once approved, invitations were dispatched to the first meeting of G20 finance ministers and central bankers.

The G20 includes nineteen states plus the EU. The twelve newcomers meet the criterion of being large by GDP or population (though the resulting nineteen are not the nineteen biggest by either measure). The emphasis on sheer size means that the G20 could be called “multilateralism of the big,” or MOB for short. But the United States also shoehorned in some of its relatively small allies, such as Australia, Argentina, Saudi Arabia, and South Korea.¹⁷

As long as the G20 remained a gathering of finance ministers and central bankers, it had a useful but minor role in the play of events. Once it became clear that the East Asian/Russian/Brazilian crisis would not ricochet out of the periphery and into the West, the G7 finance ministers lost interest in talking about NIFA and began to lose interest in the G20 meetings. They sent ministers and officials of decreasing seniority.

The global crash of September 2008 revived the finance ministers' meetings and prompted the government of George W. Bush to call the G20 leaders (G20L) together for the first time, to constitute an ongoing leaders' forum. The leaders boldly announced their intention to make themselves the global economic steering committee. The communiqué of the second summit (London, April 2009) read,

We are determined to reform and modernize the international financial institutions to ensure they can assist members and shareholders effectively in the new challenges they face. *We will reform their mandates, scope and governance* [emphasis added] to reflect changes in the world economy and the new challenges of globalization, and that emerging and development economies, including the poorest, must have greater voice and representation. This must be accompanied by action to increase the credibility and accountability of the institutions through better strategic oversight and decision making.

The communiqué from the third summit, September 2009, read,

We designated the G20 to be the premier forum for our international economic co-operation. After this crisis, critical players need to be at the table and fully vested in our institutions to allow us to co-operate to lay the foundation for strong, sustainable and balanced growth.

Legitimacy

The G20 has unquestioned legitimacy in the eyes of its members, who collectively boost it as the top table of global governance (excluding matters of security and war, where the UN Security Council remains the apex). In its own words, its "economic weight and broad membership gives it a high degree of legitimacy and influence over the management of the global economy and financial system."¹⁸ Indeed, developing countries account for half the seats (with Russia and South Korea included); and its members account for nearly 90 percent of world GDP and two-thirds of world population (though these figures questionably include the whole of the EU via the EU seat).¹⁹ The countries that especially love it are the "last ones in the door," the smaller countries whose claims to sit at the top table are most contestable, like Australia and Canada.

The giants also like it. For example, both the United States and China recognize that embedding their often-tense bilateral relationship in a larger grouping can dampen the tensions. China also boosts the G20 as the first top-level global body to reflect its global

role but not authoritative enough to press it to take on leadership responsibilities it does not wish to assume.

The G20 champions do not make a distinction between efficiency and legitimacy—indeed, the word *legitimacy* rarely passes their lips, and if pressed, they use it to mean no more than “representative” or “efficient.” They pirouette around questions about (1) the legitimacy of the process by which the twenty were selected, (2) the lack of explicit criteria for membership, (3) the principle of exclusive membership (with no rotation), and (4) the thinness of regional representation.

However, many states outside the G20 do question the G20’s legitimacy.²⁰ The Norwegian foreign minister even described it as “one of the greatest setbacks since World War II.”²¹ The UN, as the embodiment of the principle of inclusive multilateralism, was a center of resistance to the upgrading of the G20 from finance ministers level to heads-of-government level, on grounds that the G20’s self-selecting, exclusive, nonrotating membership breaks a fundamental principle of liberalism—universality. Neither the secretary-general nor the president of the General Assembly were invited to join the G20 leaders in an *ex officio* capacity (as were the managing director of the IMF and the president of the World Bank). The UN General Assembly convened the UN Conference on the Global Economic Crisis in June 2009 as a rival forum, with lukewarm response from G7 members and outright hostility from the UN Secretary-General’s office, deferring to G7 wishes.

The G20’s critics emphasize that its composition meets no criteria that would justify the inclusion of Argentina (population 40 million) rather than, say, Colombia (46 million), or South Africa (50 million) rather than, say, Nigeria (158 million). They become incensed when they hear the G20 leaders announce from on high, as at the second summit, “We will reform [the international financial institutions’] mandates, scope, and governance.” By what authority do the G20 leaders supersede the legitimate governing bodies of these organizations (the Development Committee for the World Bank and the International Monetary and Financial Committee for the IMF)? they ask. By what right do the G20 leaders call for a change of voting shares in the World Bank in favor of developing countries by at least 3 percentage points and in the IMF by at least 5 percentage points? When they hear the managing director of the IMF claiming at IMF board meetings that *he* is the legitimate representative of the non-G20 DTCs at the G20—implying that despite appearances to the contrary, the non-G20 DTCs are well represented at the top table—they are incredulous. Indian representatives sometimes counter in private that since India is the poorest of the G20 states, *it* has the right to, and does, represent the poorest countries.²²

Since the first two summits, in November 2008 and April 2009, regional bodies have pressed for inclusion. The African Union has said that Africa is woefully underrepresented (only by South Africa), and that a seat for the union would help. The Association of Southeast Asian Nations (ASEAN) has said the same. The G20 has responded by inviting ASEAN to nominate a country to represent it and the African Union to send representatives from two of its member states. So at the Seoul summit, November 2011, twenty countries represented themselves alone (the nineteen plus Spain, which

has managed to wangle the status of “permanent guest”); four countries represented collectivities (two from the African Union; one from ASEAN; Singapore represented the Global Governance Group, which covers 28 small states); and the EU occupied one seat.²³ In effect, the G20 has become the G20 + 5.

However, the complaints have not gone away. The Nordics, for one, argue that since the Nordic-Baltic economies are the ninth biggest economic bloc in the world, they should be at the top table. But they and other critics can equally turn rejectionist and say that as long as the G20 permanently excludes 168 countries of the World Bank and IMF and 172 countries of the UN, it cannot be deemed a legitimate global body, period.

Effectiveness

The G20 was created to promote multilateral cooperation, but in the context of a system still largely dominated by the United States—the system Philip Stephens referred to when he said, “Membership of the west once meant doing whatever Washington said.” As multipolarity has increased since 1999, how have Southern states participated in the G20? In the mode of hegemonic incorporation (where the DTCs accept the G7 consensus), multilateral cooperation (where the DTCs do not simply rubber-stamp the G7 consensus; they undertake initiatives, and all members are prepared to find compromises on matters they did not initially agree about), or Westphalian assertion?

For most of its history, the finance ministers’ G20 has functioned toward the hegemonic incorporation end of the spectrum. All the way through, it has been standard practice for the chair country to send proposals for the meeting and the communiqué (drafted before the meeting starts) to the U.S. government first to get its views.²⁴ A report from the G20 finance ministers’ meeting in South Korea in October 2010, chaired by the Koreans, said that the ministers had had “intense talks—built largely around an agenda the United States brought to the meeting.”²⁵

Not that the United States has dominated in an overt way; its representatives have often played the strong, silent types, content to let U.S. muscle do the talking. The key animators and organizers have been the Canadians and the Australians (“last in the door” of the Anglo states). They repeatedly got the G20 working groups and ministers’ meetings to endorse the formula that “globalization works,” where globalization policies amount to privatization, liberalization, and stabilization, plus social safety nets. The World Bank provided support for this agenda, sending reliable staff to address G20 technical meetings.²⁶

At these meetings, the representatives from the DTCs tended to sit passively, contributing little to the agenda, the debate, or the communiqué. They felt at a disadvantage because the language of the G20 is English, and because they did not have a good feel for the informal ways of G7 diplomacy that the G7 representatives used to run the G20. They had won an important symbolic gain just by being present, “equal” alongside the United States, Europe, and Japan.

There is not much sign that the finance ministers' G20 has been able to coordinate governments into mutually desired outcomes—and it certainly cannot induce them to undertake unwanted but necessary policies.²⁷ One reason is that the G7 has by no means been eclipsed, and indeed, from the beginning, the G7 saw the G20 as a way to leverage its influence via the larger body. The Canadians are especially keen on keeping the G7 going, because in it, they have more influence than in the G20. So instead of the G20 replacing the G7 (or G8 at leaders level), it has become an additional forum, diluting its claim to be the top table.²⁸

For all its ringing declarations about global leadership (“We designated the G20 to be the premier forum for our international economic co-operation”), the leaders' G20 has no means of enforcing its agreements. It decided at the first summit in 2008, in Washington, to eschew trade protection, but some of its members broke the promise as soon as they walked out the door. It decided at the same meeting to boost government spending, but almost all the programs announced after the summit—as evidence of G20 cooperation—had already been decided on before the summit. Similarly, it promised to treble the resources of the IMF up to \$1 trillion, making an arresting headline; but as Ngaire Woods reports, “the new financing for the IMF is mostly credit lines,” which allow it to *borrow* more when it thinks its present resources are insufficient to meet members' demands, and borrow mostly from the G7 states, which ties the organization back into the G7 orbit.²⁹

However, in recent years, the United States and its allies (including the United Kingdom, Canada, and Australia) have by no means gotten their own way in terms of the internal discussions and agreed-upon conclusions. Developing country members have not had much role in setting the agenda but have become more active in *reacting*, sometimes fighting back. They can and do apply an informal veto. Examples include China on the subjects of “global imbalances” and “exchange rates”; and many developing country members were active in shaping what the G20 said and did not say in the run-up to the Copenhagen climate summit. We could interpret this DTC participation as moving from hegemonic incorporation toward Westphalian assertion.

This is what the top U.S. official for the G20 process was referring to in January 2010 remarks to EU officials (made available on WikiLeaks):

It is remarkable how closely coordinated the BASIC group of countries . . . have become in international fora, taking turns to impede US/EU initiatives and playing the US and EU off against each other. BASIC countries have widely different interests . . . but have subordinated these to their common short term goals to block some western initiatives.³⁰

At the Seoul leaders' summit in November 2010, the wheels fell off. The “fellowship of the lifeboat” that prevailed in the acute phase of the global crisis vanished. The *Financial Times* headlined its comment, “The G20 show how not to run the world.” It described the “action plan” as “*déjà vu*,” “similar to past failures.” The G20, it said, “is

doing little to assuage fears of an impending conflict over currencies and trade, and its vague communiqués can do little to disguise the bitter divisions.”³¹

The World Bank

The World Bank remains the world’s premier development agency, especially as generator and sustainer of beliefs about the best policies and institutions for development. It has been a prime beneficiary of the global economic crisis, to the point where its lending commitments in fiscal year 2009 were three times higher than two years before. The middle-income countries—the ones best placed to walk away from the Bank and borrow from private markets under their own names or from regional development banks—have come out in strong support. The days of the early 1990s, when a powerful NGO movement with much influence in the U.S. Congress was campaigning to close down the World Bank and IMF under the slogan “50 years is enough,” and when a powerful right-wing American constituency that disliked multilateralism and foreign aid was pushing for much the same, are long gone.³²

The Package of Reforms

The spring meetings of the Bretton Woods organizations in late April 2010 may be looked back on as a seminal event in the organizations’ history. The governors of both—ministers from the member countries³³—agreed on the outlines and some specifics of reforms hailed as equipping them for the new multipolar era (recall Zoellick’s speech in the run-up to the spring meetings).

The World Bank reform package includes five main components:

1. Voice: Increase in shares and votes of Part II (borrower) countries.
2. Capital increase: To support future lending.
3. Strategy: Laid out in a paper called “New World, New World Bank Group: I Post-Crisis Directions.”
4. Internal organization: For example, further decentralization out of Washington, D.C.
5. Internal governance: For example, organization of the board, relations between board and president.

Causes of the Reforms

The impetus for voice reform was building for several years before the global economic crisis, focused on the fact that the Part I (high-income, nonborrowing) countries had well over half of the voting shares. Moreover, the United States on its own, and the western Europeans acting as one, both wielded a veto on important (“supermajority”) decisions. The Monterrey Consensus in 2002 stated that the Part IIs should have more

voice in international organizations, in line with their rising weight in the world economy. But the Part I countries dragged their feet. Voice reform was not their priority.

The formation of the leaders' G20 in 2008, at the initiative of President Bush, gave new impetus. Now the top political leaders were dealing face-to-face, and the developing country leaders put the voice demand firmly on the table. They readily agreed to put forth a demand for a bigger share of votes, while disagreeing on much else. Moreover, the U.S. government came to see support for the change as a way to hit two birds with one stone—to cut Europe's (alleged) overrepresentation and to strengthen its alliances with the BRICs.

At this time of crisis, the World Bank and IMF both faced soaring demand for loans. As the Bank's lending commitments rose, it became clear—at least to some senior World Bank officials and some member states—that it needed a big general capital increase (GCI) just to avoid having to cut back its lending sharply in future years in order to stay within its prudential limit, let alone to expand its future lending.

But all the G7 states opposed a GCI, especially the United States, the United Kingdom, and France. Right up to the summer of 2009, President Zoellick insisted that the Bank could boost its lending by making "efficiency savings." Only at the annual meetings in Istanbul in September did he finally lend support to a GCI. Why the G7 reluctance to support a GCI?

The G7 governors, executive directors, and many other Part I states said they would have a hard time persuading their parliaments—especially the U.S. Congress—to increase funding for the World Bank at a time of fiscal stringency at home (even though the amounts of paid-in capital are tiny, only about 5 percent of pledged or "callable" capital).³⁴ The western Europeans were doubly doubtful, because they knew that they were going to lose voting shares in the voice reform, so they would be paying in more capital at the same time as they lost votes.³⁵

During 2009, the World Bank management (with grudging permission of the president) worked intensively to demonstrate to doubtful Part I executive directors that if the World Bank did not get a big general capital increase, it would have to cut back its lending by 2014 to far below the rate before the global economic crisis. This evidence eventually persuaded many Part I executive directors that the World Bank had to have a GCI.

So the Part I governments began to say, We'll consider a GCI, but first you must make big reforms in internal organization. As U.S. Treasury Secretary Geithner said, "Donor countries are facing severe financial constraints at home; [so] we will be seeking critical institutional reforms in any consideration of additional resources."³⁶

As the board and the management worked on the reform package, the Part I governments reluctantly accepted that the GCI had to come *now*.³⁷

So the main driver of the reform package at the World Bank was demands by external shareholders, led by the United States, for reforms that looked bold and could be sold to legislators as *quid pro quo* for more capital at a time of fiscal stringency. This is the short answer to why the governors approved the reform package at the spring

meetings in Washington, D.C., in April 2010 and why the package was boosted as a “New World Bank for a New Multipolar World.”

What Do the Reforms Amount To?

When the reality becomes visible through the mist of euphoria, the reforms look modest. Most of the Part II executive directors feel disappointed but not surprised, with the important exception of the Chinese executive director, who takes the view that they are a positive *first* step—in the spirit of crossing the river by feeling for the stones one at a time.

1. *General capital increase.* The agreed increase in the capital base is actually very small, probably only big enough to allow the Bank to sustain beyond 2014 the same level of lending in real terms as in the early 1980s.

2. *Voice reform.* The G20 leaders’ meeting in September 2009 declared that the World Bank should raise the share of Part II votes by “at least 3 percentage points,” and this statement, interpreted as “3.13 percentage points,” constituted the Development Committee’s and executive directors’ marching orders. The shift would raise the Part IIs’ share from about 44 percent of the votes to about 47 percent.

This fell well short of what Part IIs were demanding: parity, or 50 percent. How were the 3 percentage points arrived at? By the ancient haggling principle of “split the difference.” Three percentage points on the existing 44 percent brought the Part II share up to half of the Part IIs’ demand.³⁸

Once the G20 had laid down the target, the board spent months of nearly 24/7 negotiations to allocate the change in shares among member countries. As one observer said, the process became a search for “compromises at the third decimal point.”³⁹

The negotiations were guided by the general principle that voting power should be proportional to economic weight in the world economy, translated into a formula. But the formula was highly contested—and called a “framework” rather than a “formula,” on grounds that “formula” sounded like something permanent, which would set the starting point for the next round of negotiations. The United States said it should be based largely on “weight in world economy as measured by GDP at *market exchange rates*”; and not coincidentally, the United States is underrepresented in the World Bank by this criterion. Europeans said that the formula should also include “contributions to the poverty-reduction mandate of the World Bank, as measured by IDA (International Development Association) contributions”; and not coincidentally, Europe’s are much bigger than those of the United States. Many Part II countries argued that the only criterion should be a country’s share of world GDP in *purchasing power parity* terms—which would substantially raise the share of the Part IIs. Eventually a compromise was reached: the GDP metric should be weighted 60 percent at market exchange rates and 40 percent at purchasing power parity exchange rates, reflecting the continuing tilt toward the Part I countries.⁴⁰

But beyond the general principle that votes should be related to GDP, what really happened was, in the words of a close participant, “a messy and opaque process of *reverse engineering of political deals*, which caused a lot of bad blood.”⁴¹ One of the

Bank's main officials on the voice reform resigned from the Bank because she could not stand to go on spoiling her life in such bizarre and bitter wrangling.

In the end (including the entire change in voting shares since 2008),⁴²

- The headline jump in the Part II share from 44 percent to 47 percent was misleading. More than a dozen countries which by the Bank's criteria should have been counted as Part I ("high income") were counted as Part II. They include South Korea, Singapore, Saudi Arabia, Kuwait, Poland, and Hungary. If added to the "high-income" countries, the latter end up with a bit more than 60 percent of the vote (60.95 percent).⁴³
- Within the Part I countries, the western Europeans combined lost the most, Japan lost the most of any single country, and the United States effectively stayed the same.
- Being described as a "Part II gain" concealed that most of the shift went to a small number of middle-income countries, notably, China, Brazil, and Turkey. Of the BRICs, Russia did not gain and India gained only a little.
- The middle-income countries now have about a third of the votes.
- None of the low-income countries lost, but few gained, and then insignificantly.⁴⁴
- The low-income countries have 4.46 percent of the votes.
- China won respect by giving up about half of its entitled increase in shares (by share of world GDP) so as to allow this half to go to other Part IIs. (If China had not done so, it would have received the whole of the 3 percentage-point shift.)
- China plus India increased their combined share from 5.56 percent to 7.33 percent, compared to Belgium plus the Netherlands' fall from 4.01 percent to 3.49 percent. This gives China plus India 110 percent more share than Belgium plus the Netherlands. But if shares were proportional to GDP shares (the Bank claims this to be the guiding principle), China plus India should have more than 600 percent of the share of Belgium plus the Netherlands. Other middle-income countries are similarly underrepresented and high-income countries overrepresented.
- Under the formula relating the capital increase to the change in shares, Russia and Saudi Arabia were destined to lose shares. Russian Prime Minister Vladimir Putin and his Saudi counterpart informed the president in imperative tones that they would block the whole voice reform if they lost shares. (The Articles of Agreement say that a change in voting shares must be agreed upon unanimously to be valid.) So the architects of the voice reform changed the formula in such a way as to enable these states to gain back what they would have lost—by pledging an additional amount for the *next* International Development Association (IDA) subscription (IDA16), and weighing these future contributions much more heavily than countries' past contributions (to the anger of the IDA-generous Nordics). Several other idiosyncratic arrangements were bolted on to accommodate the determined defense of existing voting shares by the top leaders of certain states, using the threat of veto.⁴⁵
- The voting shares are due to be revised in 2015, not before.⁴⁶

3. *Strategy*. The focus on voice reforms at the third decimal point meant that other issues, especially the Bank's strategy for the new multipolar age, were eclipsed. This suited the Part I countries well.

The strategy document is short, vague, and platitudinous, containing little to disagree with. It presents no new vision for a larger World Bank. Strip away the fluff and it reduces to something close to "business as usual"—to be done in a more decentralized way than before. However, the fact of its existence satisfied the demand of the Part I governments that the Bank show them what it was going to do with the additional resources made possible by a GCI.

The many drafts of the strategy paper, up to the last two (a couple of weeks before the April 2010 meetings), began with the following sentence:

The vision of the World Bank Group is to support an inclusive and sustainable globalization—to overcome poverty, enhance growth with care for the environment, and create individual opportunity and hope. (emphasis added).

This reflected Zoellick's wish to pavilion "globalization" with praise. Many middle-income countries, whose representatives question the Bank's long established focus on poverty reduction, have supported him. They say that a World Bank devoted to poverty reduction will go out of business, because the middle-income countries want to borrow from it not mainly for poverty-targeted projects but for general development projects, especially infrastructure.

The Nordics protested again and again at the draft strategy's prioritizing of globalization over poverty reduction (after all, they were arguing against a cut in their voting share on grounds of their generous support to the Bank's poverty-reduction mission). Finally, at the last minute, their efforts paid off. The strategy team revised the headline statement to read,

The vision of the World Bank Group is to overcome poverty—by supporting an inclusive and sustainable globalization, enhancing growth with care for the environment, and creating individual opportunity and hope. (emphasis added).

The headline reaffirms the vision statement that has been displayed in the foyer of the main building of the World Bank since the days of James Wolfensohn's presidency in the mid-1990s. But in the intervening years, several of the letters have lost their moorings and now droop at decrepit angles.

The IMF

Following G20 instruction, the IMF's governing body agreed at the annual meetings of October 2009 on "a shift in quota share to dynamic emerging market and developing countries of at least 5 per cent from over-represented to under-represented countries." This ungrammatical sentence was a fudge, to conceal disagreement on whether the shift should be to *dynamic* emerging market *or* to DTCs as a bloc *or* to underrepresented countries (in the latter case, Spain, Ireland, and Luxembourg would also gain).

By November 2010, the board agreed on a 6 percent shift—boasting that it had *exceeded* the G20 target. Hidden in the small print was the fact that the shift was to dynamic emerging economies only. The changes will make China the third largest shareholder after the United States and Japan and vault India, Russia, and Brazil into the top ten. As at the World Bank, the loss to “advanced countries” is very small: from 57.9 percent to 55.3 percent, or 2.6 percent. But as also at the World Bank, South Korea and Singapore were counted as dynamic emerging markets, though the IMF itself normally classifies them as “advanced.” With them in the advanced category, the advanced states lose only 2 percent. Meanwhile, Africa as a group loses voting share from 5.9 percent to 5.6 percent.⁴⁷

These shifts form part of a larger package, which include changes in the composition of the seats on the board. Here the Americans made another attempt to curb Europe’s alleged overrepresentation by forcing the “advanced European” countries to give up two of their eight seats on the Fund’s twenty-four-seat board.⁴⁸ They forced the issue by announcing with little notice before the October 2010 annual meetings that they would not approve the continuation of twenty-four seats on the executive board. The Fund’s Articles of Agreement stipulate a twenty-seat board, and the enlargement to twenty-four has to be approved by the board every two years. Thanks to their veto, the Americans can block it. (Key Fund decisions require approval by 85 percent of the voting shares, and the United States has 17 percent.) Having previously automatically approved, their sudden refusal threw the board and the Europeans into panic. Who would lose their seats?

To cut a long story short, Managing Director Strauss-Kahn, perhaps with an eye to a top position in European politics, launched a diplomatic drive to limit the damage to Europe. He and the Europeans largely succeeded. By the time of the Seoul G20 meeting in November 2010, the Americans again agreed to approve the twenty-four-seat board, while the advanced Europeans agreed to give up some positional authority by going from eight to six seats. This is not exactly a revolution.

The advanced Europeans are just starting (early 2011) to negotiate among themselves about how the loss of seats will be distributed among themselves. Seats can be sliced up, such that if Belgium, which has represented a constituency of countries including Turkey, were to share the executive director position with Turkey in rotation, this would count as advanced Europe’s giving up half a seat. If Spain were to exit from the constituency where it now shares a seat with Mexico and Venezuela, this would count as advanced Europe giving up one-third of a seat. Once it is clearer how the loss will be distributed, negotiations will begin over how the two-seat gain will be distributed. It is quite possible that western Europe loss will go mostly to eastern Europe, so that the transfer becomes one within Europe (plus Turkey). The outcome is unlikely to be clear before 2013.

Strauss-Kahn called the agreements “historic.” Certainly they are bigger than previous changes, but hardly major relative to the rise in multipolarity. Nevertheless, tensions have been diffused, limited agreements reached, important issues kicked into the future. Europe has lost much less than looked likely in the summer of 2010; DTCs as a group have gained much less. Within the DTCs, China gained the most by far (it is

now the IMF's third biggest shareholder); Brazil and some "honorary BRICs," like Turkey and Mexico, also gained substantially; and now DTCs have four of the top ten shareholding positions, having earlier had two. The United States, having forced the issue of seats and demonstrated its commitment to a general power shift from Europe to the South, can expect the winners to show gratitude.⁴⁹

Conclusions

We have entered a time of more turbulence in global governance than for many decades. The turbulence reflects (1) the increasing share of global economic activity outside the established Atlantic states plus Japan, (2) the associated growth of excess production capacity relative to effective demand, (3) the efforts of states to blame outsiders for their troubles and shift unemployment elsewhere by boosting exports as they contract domestic demand, and (4) the West's preternatural fear of China.⁵⁰

This essay has discussed some of the institutional innovations made or proposed in response to the new international distribution of economic activity. It has illustrated how the tension between the newcomers and the old G7 is playing out—right down to the capillaries (third decimal point) of world politics. On the one hand, the advanced countries attempt to incorporate newcomers into their own beliefs and preferences for the global meta-agenda of economic policy ("globalization" in the sense of further market expansion plus social safety nets for the poorest, together with, post-2008, some tighter financial regulation). On the other hand, the newcomers demand more voice but without as yet much coordination of beliefs and preferences among themselves. (But recall that the BRIC executive directors at the World Bank and at the IMF have started to meet once or twice a month.)

The transition from the waning to the emerging global order is clearly proving tricky. In terms of the multipolar governance dilemma, economic multipolarity, particularly at a time of economic slump, is generating more demands for interstate cooperation; but the supply response in the form of political multilateralism lags far behind. The G20 and the Bretton Woods organizations continue to show more "hegemonic incorporation" and "Westphalian assertion" than "multilateral cooperation."

The Americans and the Europeans are ambivalent about ceding some leadership to the DTCs, sometimes cooperating among themselves and sometimes falling out on what changes should and should not be made. At the World Bank, the Part I countries as a group dragged their feet on significantly increasing the Part II voting share, *and* on increasing the general capital base, *and* on opening the selection process for the heads of the World Bank and the IMF to global recruitment without nationality restrictions. And they cooperated to ensure that the real shift of votes to DTCs was much less than the headline.

The U.S. executive branch is fixated on a power play, first, to retain its veto in both organizations and, second, to retain the presidency of the World Bank. If it keeps these two things and does not have to pay in more capital, it is not too worried. The U.S. Congress is even more adamant about protecting U.S. dominance in both

organizations, which it treats as arms of U.S. foreign policy. For example, the U.S. Senate demanded (March 2010) that the Obama administration maintain “United States voting shares and veto rights at the international financial institutions,” and preserve “U.S. leadership of the World Bank and senior level positions at the other international financial institutions.”⁵¹ U.S. Westphalian pressure may well intensify in the wake of the November 2010 U.S. congressional elections, which returned a Republican majority in the House of Representatives. U.S. foreign policy may become more unilaterally assertive, self-righteous, and self-pitying than in the first two years of the Obama administration, because American conservatives unify around the belief in America’s unique virtue and its corollary that the rules for others do not necessarily apply to the United States. Hence, many conservatives are reluctant to adapt to the rise of new centers of power, and want to rely instead on “coalitions of the willing” or a “concert of democracies.”

At the IMF, the Europeans have seemingly snatched victory from the jaws of defeat as they pushed back against U.S.-led attempts to curb their overrepresentation. They have particularly focused on the U.S. veto, knowing that the Americans place high importance on retaining it and knowing that it is widely recognized as illegitimate. The Europeans therefore say that if Europe is to give up some authority to the DTCs, so, too, must the United States; above all, the United States must give up its veto. As the German executive director to the Fund said in late 2010,

It [the veto] is anachronistic at this point. For one country, no matter how big it is, to have the right to dominate decisions in that unique way is not legitimate anymore. *If you talk about legitimacy, that’s the major flaw in the organization.*⁵²

Faced with the prospect of European-led challenges to their sacred veto, the Americans have softened their drive against the Europeans.

As for the DTCs, they wish to be *at the top table, in global governance*, but are wary of *more global governance* (which would curb their sovereignty) and wary of proposing initiatives that would put more responsibilities on their shoulders. This helps to explain the otherwise puzzling fact that at the World Bank, countries that should have been graduated to the Part I category according to the income-per-head criterion (like South Korea, Saudi Arabia, and Kuwait) resist. One reason, noted earlier, is that the Part I countries wish them to continue to be classified as Part II, so that the shift in votes to “true” DTCs is less than it seems. But they themselves also wish to continue in Part II because once graduated, they would be expected to (1) contribute more capital, (2) give up voting share, and (3) share the burden of global responsibilities.

Meanwhile, China, the world’s biggest creditor state, is becoming increasingly assertive, even swaggering, as the ruling Communist Party tries to show that it has made China a respected world power, not to be pushed around by anybody. It is drawing sharper distinctions between its own and others’ national interests, as seen in its responses to rising tensions on the Korean peninsula and in the South China Sea.

To my knowledge, there is no body of theory that might shape our expectations about the gap—large or small, increasing or diminishing—between economic globalization and multipolarity, on the one hand, and political globalization and multilateralism, on the other. It remains an open question whether the gap will reduce or widen over time. The optimistic answer is that surging global problems plus repeated interaction within the expanded body of leading states, in many international organizations, will generate convergence in both solutions and enmeshed beliefs about causes (as repeated interaction among the Permanent 5 of the Security Council has helped to maintain the peace between them—with occasional exceptions—for more than 60 years, an epochal achievement).

The more pessimistic answer is that while bits and pieces of agreements (loosely coupled regulatory systems, or “regime complexes”) may be forged by overcoming coordination problems of the prisoner’s dilemma kind (where the parties agree on the nature of the problem), bigger advances in the form of strong, integrated regulatory systems (“comprehensive regimes”) are blocked by differences in enmeshed beliefs about the nature of the problem, now combined with deep tensions resulting from the economic slump in the Atlantic economies. Making enmeshed beliefs converge, especially when economic tensions run high, is more intractable than solving coordination problems.⁵³

Think, for example, of the profound differences between the Chinese and U.S. governments in their diagnosis of the causes of China–U.S. payment imbalances, which go far beyond differences of the prisoner’s dilemma type.⁵⁴ China says the root of the problem is loose U.S. monetary policy and excessive borrowing since the early 2000s; the United States fingers China’s pegging of the yuan to the dollar, which results in yuan undervaluation and unfair advantage for China’s exports. On the basis of these different diagnoses, the two governments are now adopting recovery policies that undermine each other, at cost to the rest of the world as well as themselves. The United States continues to rely on cheap money policies, whereas China continues to keep the yuan loosely pegged to the U.S. dollar and continues to emphasize export growth. Cheap U.S. money goes in search of strong returns, which contributes to increases in commodity prices (agriculture, metals, oil) and in inflows of capital to China and other developing country markets. These flows stoke the imbalances even further.

Clearly the repeated interaction between China and the United States in multilateral forums like the G20 and the Bretton Woods organizations has not been sufficient to generate convergence in their understanding of the root causes of global imbalances or complementarity in their policy responses. Yet, think how much worse things would be in the absence of such forums, as in a pre–World War II type of order. In such a world, the imbalances would be reduced through bilateral assertion, elephant against elephant, as the United States creates dollars without limit and China responds by creating yuan without limit with which to buy the dollars and prevent yuan appreciation. Innocent bystander states suffer, and the world moves from currency wars to even worse trade protection wars.

Whether this outcome now can be avoided will be a test of the diffuse value of global forums. Hopefully, they will soften bilateral tensions between the giants by embedding

them in cross-cutting ties, which expose them to pressure from those sitting alongside whose economies suffer because of their actions. And hopefully they help the rising states to learn about open debate and superpower diplomacy. In this optimistic spirit let us consider how their role and governance might be improved.

Reform of the G20

The G20, as we saw, is beginning to intervene directly into the Bretton Woods organizations, by setting reform directions and deciding on shifts in voting shares. This may be temporary: once the Atlantic recession lifts, the non-G20 may resist its interventions sufficiently for it to find something else to worry about. On the other hand, an increasing proportion of top appointments in both organizations are going to G20 states. Insiders refer to “the G20ization of the World Bank.” This may be an indirect channel for making these organizations more responsive to G20 beliefs, preferences, and strategies.

However, the G20 is not a viable long-term solution to global coordination of economic and financial policies, particularly because of its legitimacy problem in the eyes of many of the 160-plus non-G20 states. Whether at the level of finance ministers or of heads of government, the G20 has yet to demonstrate that it can graduate from crisis committee to steering committee.

We can think of two new models. The first uses *explicit* criteria to guide the selection of members of a new Global Economic Council (GEC), of which at least four are relevant. One is weight in the world economy, measured by GDP, an indicator of effectiveness in turning decisions into action. A second is representation, which means that the group must cover a high proportion of the world’s population. A third is regional representation, to ensure that no region is left out. A fourth is intimacy: the grouping should be kept small enough to allow personal trust to develop among the members.⁵⁵

With reference to the first two criteria, sixteen countries meet the condition of 2 percent or more of either world GDP or world population (using 2008 figures and GDP measured at purchasing power parities). Applying the 2 percent rule would exclude Argentina, Australia, Mexico, Saudi Arabia, South Africa, and Turkey of the current G20, and include Bangladesh, Nigeria, Pakistan, and Spain. However, the result is a bloc of rich countries and a bloc of poor, aid-dependent countries, and its business may be taken over by the latter’s attempts to wrestle more aid from the former. For this reason, the 2 percent of population criterion may have to be qualified by criteria relating to economic dynamism or international trade, or raised to 3 percent.

The third criterion could be met by each region selecting one or more states to represent it in the GEC, perhaps in a regional election, or else by each regional body, like the African Union, sending a representative. Dividing the world into five regions would make another five seats. The UN secretary-general and the president of the General Assembly would further enhance its legitimacy. They would bring the total to twenty-three seats (using the 2 percent criterion), consistent with the fourth criterion of lowish transaction costs.

The second—and by criteria of representational legitimacy, much better—model is a modified version of the existing Bretton Woods governance arrangement. A small number (roughly six) of the biggest states by GDP and population would represent themselves alone. All the rest (roughly 180) would be assembled in about twenty constituencies of at least six states each. Each constituency would regularly elect a state to represent it, with votes based on each country's share of the constituency's GDP and population. In this model, each constituency state on the GEC would represent roughly eight other states, in contrast with the first model, where each regional representative would represent roughly thirty-six other states.

Either of these models would allow a better balance between established and rising powers and a more robust way of changing the governing balance as the economic balance changes. The G7 states themselves are no more likely to push in this direction than turkeys are to vote for Christmas, but this should not stop others.

Reform of the World Bank

The World Bank's future is assured because the BRICs and other middle-income countries have come out strongly in support, though best placed to borrow from other sources. Many are now more credit worthy than some Part I countries, such as the southern European Mediterranean states. However, some Part I governments—notably, the U.S. government—are holding back its growth, as seen in their reluctance to support a GCI. These governments have no strong interest in allowing the bank to grow much bigger and compete with their private financiers and consulting firms.⁵⁶

A big fight is likely within the next few years over the president of the World Bank and the managing director of IMF, especially over whether the Americans can keep their monopoly on the bank presidency and the Europeans their monopoly of the Fund. The reform packages for both organizations call for open selection of the heads, unrestricted by nationality. But many commentators immediately shrink back: what if Lula da Silva, former president of Brazil, decides that he wishes to be president of the World Bank? How does the organization hard-wire in a *merit* test? Worse, what happens if the Chinese government wishes to appoint a senior official or politician as managing director of the IMF? What would happen to the organization's transparency and accountability?⁵⁷ In the case of the bank, should the positions of CEO and chair of the board, which have always been held by the president, be separated, so that a Lula da Silva could be chair with an effective manager as CEO?

The Europeans say that they and the Americans agree to give up the gentleman's agreement—but that it is up to the United States to make the first move by giving up the bank. They worry about a U.S. strategy whereby it agrees to open up both jobs, then mobilizes an emerging market candidate as managing director of the IMF and deploys its veto to ensure his or her election, in return for which grateful emerging market states support an American as the next president of the World Bank—through “open” selection, of course.⁵⁸

The allocation of votes—due to be revisited in 2015—is another looming fight. The idea of aiming for “parity” between Part I and Part II countries clearly does not make sense, not least because as more countries graduate from Part II, ever fewer countries would gain ever more voting rights—or else ways would be found to halt the graduation. As also for G20 membership, the Bank needs a shareholding formula based on transparent and legitimate principles, consistent with preserving the willingness of governments to fund and guarantee the organization and hence protect its AAA rating.

Another sensitive issue concerns the World Bank’s role in servicing the emerging development agenda of the G20. Some non-G20 states strenuously object to the World Bank making itself into the “secretariat” for a self-appointed, nonrepresentative body that includes no low-income countries (India now officially being classed as a middle-income country) and no premier aid donors except the United Kingdom. Any World Bank help to the G20 only ratifies the G20’s claims to be the global steering committee, they say. (In this spirit, they take a microscope to the bank’s budget in order to discover where the costs of servicing the G20 are being concealed.) Other voices take a more pragmatic view that since the G20 exists and wants to talk about development, the World Bank had better lead the way in telling it what to say.

But in the larger scheme of things, these are minor issues. What would be a bold vision for a new World Bank (bearing in mind Helmut Schmidt’s warning that people who have visions should see a doctor)? It might start from the point that there is an obvious unmet global need for a financing mechanism to provide below-commercial-rate *long-term* loans on a much bigger scale than at present: first, for projects that provide “global public goods,” where the investments are made in specific countries but the benefits spill over to many other countries (global warming investments are the obvious case in point); second, for other kinds of investments where the benefits are mostly captured within the country but where costs are high and benefits accrue over a much longer period, such as some kinds of infrastructural and industrial loans.

The sum of both demands means that developing countries laying down production and distribution capacity have a very high demand for many kinds of commodities, and a very high demand for food as incomes rise. They need below-market loans which—to be safe—mature in fifteen to twenty years. Until developing countries build a diversified production base and its associated infrastructure, they should be net importers of capital—*provided* that the capital imports are used to increase productive capacity rather than increase consumption and provided that the loans are long term.⁵⁹ At present, with only a small supply of long-term loans, developing countries have been borrowing abroad on much shorter terms and at commercial rates—setting themselves up for whiplash reversal of capital flows and ensuing financial crises (as in the East Asian/Russian/Brazil crisis of 1997–98) and forcing them excessively into export production in order to repay the short-term loans.⁶⁰ In this way, they help to produce global imbalances and associated financial fragility. This is the core argument for enabling one or more World Bank-like organizations to expand long-term lending to middle-income countries by ten times or more its present level.

A big increase in such loans from the World Bank means that the International Bank for Reconstruction and Development (IBRD) and IDA would probably have to be governed separately. The IBRD is the World Bank's lending arm for middle-income countries, financed by sale of bonds plus repayments of previous IBRD loans. IDA is the lending arm for very-low-income countries, financed by grants plus repayments of previous IDA loans. The two arms are now governed by the same set of executive directors and share the same staff.

The IBRD might be thought of as a credit union or cooperative bank, as distinct from a shareholder bank. In a cooperative bank, shares and votes are allocated according to some combination of (1) one member, one vote; (2) financial contributions; and (3) borrowings. Since the Part Is now contribute very little paid-in capital and the bulk of the IBRD revenue comes from sale of IBRD bonds and *borrowers'* repayments, the switch to the cooperative bank model would imply a big shift of votes away from the Part Is to the middle-income countries, which would raise their shareholding to much more than parity.

The Part I countries say they provide the guarantees on IBRD bonds, and hence enable the IBRD to raise revenue at a cheap rate. But now that many Part II governments have a high credit rating, Part II governments could equally guarantee IBRD bonds. And some of those with large foreign exchange reserves would be very happy to increase their capital subscriptions to the IBRD instead of using their reserves to finance the United States' external deficits and overseas adventures.

The IBRD would then be run more by the middle-income countries, and could lend ten and more times its present rate to meet the surging demand for infrastructure loans, heavy and chemical industry loans, global warming loans, and the like (based on a dynamic-stages model of economic development distinct from the static comparative advantage and poverty-focused model that has dominated World Bank thinking for the past three decades).⁶¹ IDA might then be governed separately by a board that continued to be dominated by Part Is as long as they gave most of the grants. Needless to say, all Part Is, and also (at least publicly) most Part IIs, completely reject this vision.⁶²

In the next decade or so, we are likely to see repeated stalemates in global multilateral forums. Quests for global, top-down, everyone-in treaties may not be abandoned, but more progress is likely on more fragmentary regimes, composed of narrow agreements on specific issues, and on diffusion of policy norms for shifting market incentives in globally sustainable directions (such as a tax on carbon emissions coupled with tax credits for energy-efficient investments by households and firms, or prizes for carbon-saving energy innovations.)

Also, we can expect states to devote more effort to constructing *regional* economic governance regimes. Already several initiatives are underway in regions of the global South. The early Chiang Mai Initiative has more recently been joined by the South Summit (at heads-of-government level, held every five years since the first meeting in Havana in 2000), the Bank of the South (due to start lending in 2011), IBSA (annual meetings of the heads of government of India, Brazil, and South Africa), and UNASUR

(ministerial meetings among Latin American countries to coordinate on matters of finance, social policy, defense, and more). Brazil is taking a leading role in promoting South-South coordination; China is bringing African countries into common dialogues; but India is more ambivalent, being less willing than Brazil and China to court U.S. disapproval.

The growth of fragmentary global and regional regimes will—hopefully—induce efforts in global forums to make the rules more consistent with each other (on analogy with “middleware,” a type of software that enables different systems within an organization to communicate without the need for a single unified system). Much depends on what happens to China’s foreign policy as the economy grows and closes the never-before-seen gap between its high ranking in terms of aggregate size (second largest GDP in the world) and low ranking in terms of average income (about one hundredth when measured at gross national income per head using the World Bank’s Atlas method of adjusting market exchange rates) and as the polity slowly becomes more democratic. As these trends mature, China is likely—hopefully—to cease playing the double game of a superpower in some contexts and an impoverished developing country in others, and to assume more international responsibilities. And the West is likely to cease viewing China’s international behavior through the prism of skepticism and distrust. Eventually we can expect global institutional innovations to come from the South, too.

Acknowledgments

Thanks to Jakob Vestergaard of the Danish Institute of International Studies, who shared in the interviews at the World Bank and the International Monetary Fund in 2010 and contributed to the development of the argument made here.

Declaration of Conflicting Interests

The author declared no conflict of interest with respect to the authorship and/or publication of this article.

Funding

The author received no financial support for the research and/or authorship of this article.

Notes

1. Robert Zoellick, “The End of the Third World?” (address to Woodrow Wilson Center for International Scholars, Washington, D.C., April 14, 2010; emphasis added).
2. For example, Michael Wiles, “China’s Censors Misfire in Abuse-of-Power Case,” *New York Times*, November 17, 2010.
3. Stewart Patrick, *The G20 and the United States: Opportunities for More Effective Multilateralism* (New York: Century Foundation, 2010), <http://tcf.org/publications/2010/10/the-g20-and-the-united-states-opportunities-for-more-effective-multilateralism>.

4. The three organizations are discussed simply because they are contexts for interaction between established and emerging states, and because I have prior knowledge of them.
5. This is according to Volcker at a private lunch with the author at Princeton University, 1990 (when we were both teaching at the Woodrow Wilson School).
6. Joe Stiglitz, personal communication.
7. Personal communication, Ciao Koch-Weser.
8. Philip Stephens, "The West Must Offer Turkey a Proper Seat at the Table," *Financial Times*, June 18, 2010. One indicator of the extent of Western normative dominance is the voting coincidence score, which measures the amount of support a state receives from other states in the General Assembly. In the late 1990s, the EU and the United States received around 70 percent support for their positions on human rights. By 2009–10, the score had fallen to only 40 percent to 42 percent. China and Russia increased their scores from around 40 percent and 60 percent in the late 1990s, respectively, to around 70 percent today. Richard Gowan and F. Brantner, *The EU and Human Rights at the UN* (London: European Council on Foreign Relations, 2010).
9. See Mark Beeson and Stephen Bell, "The G20 and International Economic Governance: Hegemony, Collectivism, or Both?" *Global Governance* 15 (2009): 67–86.
10. President Obama previewed his government's new national security strategy in a speech at West Point military academy in May 2010. "Emerging powers in every region of the world," he said, "are increasingly asserting themselves," and the key to U.S. security is that the United States must deepen its cooperation with these "emerging centers of influence." Ann-Marie Slaughter, State Department policy chief, said, "We are not going to be able to solve any of these problems alone [from nuclear arms control to financial reform]—we have to work with other nations." Daniel Dombey and Gideon Rachman, "Mapped Out: As Washington Attempts to Engage More Closely with Emerging Powers, It Finds Their Ambitions Often Conflict with Its Own," *Financial Times*, June 3, 2010, p. 7.
11. Martin Wolf, "Basel: The Mouse That Did Not Roar," *Financial Times*, September 19, 2010, p. 13, emphasis added. See also World Bank, "Basel Core Principles and Bank Soundness," *World Bank Research Digest* 4, no. 4 (2010); M. Hojland and J. Vestergaard, "The New Standard in Banking Regulation: From Basel 2 to Basel 3," in *Governing through Standards: Origins, Drivers and Limits*, ed. S. Ponte, P. Gibbon, and J. Vestergaard (Basingstoke: Palgrave, forthcoming); and R. Lall, "Reforming Global Banking Standards: Back to the Future?" in *Governing through Standards: Origins, Drivers and Limits*, ed. S. Ponte, P. Gibbon, and J. Vestergaard (Basingstoke: Palgrave, forthcoming).
12. Thomas Hale and David Held, eds., *Handbook of Transnational Governance: New Institutions and Innovations* (Cambridge, UK: Polity Press, forthcoming), chap. 1; emphasis added.
13. For an overlapping argument, see Jakob Vestergaard, *The G20 and Beyond*, Report 2011:04 (Copenhagen, Denmark: Danish Institute of International Studies, 2011).
14. Quoted in Paul Blustein, *The Chastening* (New York: Public Affairs, 2001), 349.
15. Robert Wade, "Financial Regime Change?" *New Left Review* 53 (September/October 2008): 5–21.
16. Ciao Koch-Weser, personal communication.

17. Argentina, Saudi Arabia, and South Africa would be excluded from a list of the top twenty countries whether by GDP (nominal), GDP (purchasing power parity [PPP]), GDP (60 percent market exchange rates, 40 percent PPP), or population.
18. "What Is the G20?" (G20, 2010), http://www.g20.org/about_what_is_g20.aspx.
19. Counting only the EU states included in the nineteen country members, the G20 covers 77 percent of world GDP and 62 percent of world population.
20. On the legitimacy of the G20, see José Antonio Ocampo (p. 315), "A Development-Friendly Reform of the International Financial Architecture," *Politics & Society* (September 2011)
21. "Norway Takes Aim at G20: 'One of the greatest setbacks since World War II,'" interview with Jonas Gahr Støre, *Der Spiegel*, June 22, 2010.
22. These statements are based on interviews with International Monetary Fund (IMF) and World Bank officials, summer 2010.
23. Note that the nineteen country members (plus Spain as "permanent guest") send three persons to the top tables of the summits: the head of state, the finance minister, and the senior civil servant (sherpa). The countries representing regions send only one. Vestergaard, "The G20 and Beyond."
24. The Koreans, chair for 2010, consulted more widely than their predecessors.
25. Sewell Chan, "G-20 Gives Developing Economies Greater Role," *International Herald Tribune*, October 25, 2010.
26. As one example, see David Gruen, Terry O'Brien, and Jeremy Lawson, eds., *Globalisation, Living Standards and Inequality* (Sydney: Reserve Bank of Australia and Australian Treasury, 2002). My observations on the G20 are based partly on participant observation at the Sydney meeting from which this book emerged and on personal reports over the years from other participants, including informants at the World Bank and IMF in the summer of 2010. My paper at the Sydney meeting was the only one to take a critical view of the strong proglobalization argument being championed by representatives of the developed countries and the World Bank. It elicited jeers from Australian representatives, such as "You are just kicking up statistical dust" and "Your approach leads to the paralysis of policy making." Developing and transitional country (DTC) representatives sat mum, but several later said *sotto voce* that they were glad I had made the argument. When asked why they had not spoken at the session, they replied, in effect, that to disagree with the developed country consensus would be courting trouble.
27. Alan Beattie, "A Big, Unwieldy and Diverse Body Moves Upstage," *Financial Times*, G20 Summit special report, June 25, 2010.
28. Not all observers agree. Marc Plattner says, "By deciding to make the G-20 the key body for addressing the global financial crisis, the governments of the G-8 countries effectively consigned the smaller body to obsolescence. . . . Today the G-20 is clearly where the action is and where the real influence lies." Plattner, "From the G-8 to the G-20," *Journal of Democracy* 22, no. 1 (2011).
29. Ngairé Woods, "Global Governance after the Financial Crisis: A New Multilateralism or the Last Gasp of the Great Powers?" *Global Policy* 1, no. 1 (2010): 51–63.
30. Nancy Alexander, "The US: Still CEO of the Free World?" *G20Update* 6 (March 2011).
31. "The G20 Show How Not to Run the World," *Financial Times*, November 12, 2010; Chris Giles and Christian Oliver, "Pledge Stirs Uneasy Sense of Déjà Vu," *Financial Times*,

- November 13-14, 2010, p. 2; Christian Oliver, Chris Giles, and Alan Beattie, "Seoul Dismisses Talk of Failure," *Financial Times*, November 13-14, 2010, p. 2.
32. Robert Wade, "Greening the Bank: The Struggle over the Environment, 1970-95," in Devesh Kapur et al., *The World Bank: Its First Half Century*, vol. 2 (Washington, DC: Brookings Institution, 1997), 611-734.
 33. In the World Bank, the 187 governors delegate their governance role to the Development Committee, composed of finance or development ministers representing the countries and constituencies of countries that occupy the twenty-four seats on the board; and the latter delegate the day-to-day governance to the Board of Executive Directors, composed of civil service representatives of the same countries and constituencies, resident in Washington.
 34. There were some mixed-constituency Part I states (in a constituency with developing countries) that did support the general capital increase (GCI). Austria was one.
 35. Some Part I countries (United Kingdom, Germany) also opposed a GCI from a commitment to defend bilateral aid programs. As for Zoellick's reluctance, some informants noted that he is a Bush government appointee (he and James Baker were the key figures who swung the Florida recount in favor of Bush), and is unlikely to be offered a second presidential term by the Obama government, unless failure to reappoint him might jeopardize the U.S. monopoly of the position. According to these informants, he has signaled that he may see his future to lie outside of multilateral development, in circles where support for public-sector financial organizations that compete with the private sector may not be welcome.
 36. Quoted in Bretton Woods Project, "Expert Panel Calls for Sweeping Bank Governance Reform," *Update* 68 (November 20, 2009).
 37. The work on the reform package built on ongoing work by a special board subcommittee. After the inglorious end of the Wolfowitz presidency in 2007, the board established an ad hoc committee to conduct an investigation of the Wolfowitz affair, which revealed flaws in management of the board and the bank going far beyond the affair. So the board established a standing committee to propose changes in the nuts and bolts of board operations, board-staff relations, and board-president relations. But until the global financial crisis and the need for a CGI, nobody was paying much attention to its work.
 38. This discussion refers to voting shares in the International Bank for Reconstruction and Development (IBRD), the near-commercial lending arm of the bank, as distinct from the International Development Association (IDA), the soft-loan arm.
 39. To make the voice shift within months was quick by the standards of Japan's rise from fifth biggest shareholder to second biggest. It took a dedicated division in Japan's Ministry of Finance several years of strategizing, in the first half of the 1980s, even though only an adjustment of shares within the G7. Until the current fallout between the United States and Europe, the whole of the G7 has tended to unite against dilution of its aggregate share. Robert Wade, "Japan, the World Bank, and the Art of Paradigm Maintenance: The East Asian Miracle in Political Perspective," *New Left Review* 217 (1996): 3-36.
 40. On purchasing power parity and market exchange rates, and controversies around their use, see Robert Wade, "Globalization, Growth, Poverty, Inequality, Resentment and Imperialism," in *Global Political Economy*, 3rd ed., ed. John Ravenhill (Oxford, UK: Oxford University Press, 2011).

41. Personal communication from an individual who requested anonymity.
42. See World Bank, "World Bank Group Voice Reform," paper for Development Committee meeting, April 25, 2009.
43. In the IDA soft-loan lending arm, the high-income countries, postreform, have 61.18 percent; in the International Finance Corporation (IFC), 66.24 percent. The low-income countries have 4.46 percent in the IBRD, 11.31 percent in the IDA, and 3.09 percent in the IFC. Bretton Woods Project, "Bank Voting Remains Unbalanced," *Update* 70 (April 16, 2010); and "IFI Governance Reform Freezing Over?" *Update* 71 (June 17, 2010), <http://www.brettonwoodsproject.org/gov71>.
44. This statement holds when the earlier increase in "basic votes" is included.
45. Such "ad hocery" is hardly new. In a conference of state representatives in the run-up to the Bretton Woods conference in 1944, the young Raymond Mikesell was given the task of working out a formula for allocating IMF quotas on the basis of several variables whose general importance had been agreed at the conference. As he started work with his slide rule, he was informed confidentially that the U.S. president and secretary of state had agreed on the appropriate share to go to each of the "big four" wartime allies, and he was left to devise a "technical" formula to produce that predetermined result. Raymond Mikesell, *The Bretton Woods Debates: A Memoir*, Essays in International Finance Series, no. 192 (Princeton, NJ: Princeton University, 1994).
46. For an overview of the voice reforms, see Jakob Vestergaard, "Voice Reform at the World Bank," paper for Danish Ministry of Foreign Affairs, draft, February 2010.
47. The five largest gains in quota shares go to China (2.4 percentage points), Brazil (0.53), Korea (0.39), Turkey (0.37), and Mexico (0.35). The five largest decreases in quota shares go to Saudi Arabia (-0.83), Belgium (-0.59), Germany (-0.52), Canada (-0.36), and Venezuela (-0.33). The rank order of shareholders in the IMF is now (1) United States, (2) Japan, (3) China, (4) Germany, (5) France, (6) United Kingdom, (7) Italy, (8) India, (9) Russia, (10) Brazil. Previously the rank order was (1) United States, (2) Japan, (3) Germany, (4) France, (5) United Kingdom, (6) China, (7) Italy, (8) Saudi Arabia, (9) Canada, (10) Russia. With the exit from the top ten of Saudi Arabia and Canada and the entry of India and Brazil, the DTCs now have four states in the top ten, as compared with two previously (on the assumption that Saudi Arabia should not be classed as a DTC). Note that the Fund refers to "EMDCs" (emerging markets and developing countries) rather than the Bank's "DTCs."
48. "Alleged" overrepresentation because the formula used to calculate it is highly contested, and overrepresentation vanishes with small variations.
49. Bretton Woods Project, "IFI Governance Reform"; Bretton Woods Project, "Implementing IMF Governance Reform: Baby Steps in Slow Motion," *Update* 73 (November 29, 2010), <http://www.brettonwoodsproject.org/gov73>. See also Woods, "Global Governance."
50. Robert Wade, "The Global Slump: Deeper Causes and Harder Lessons," *Challenge*, September/October, 2009; Robert Wade, "From Global Imbalances to Global Reorganizations," *Cambridge Journal of Economics* 33, no. 4 (2009): 539-62; Robert Wade, "The Economy Has Not Solved Its Problems," *Challenge*, March/April 2011.
51. Quoted in Bretton Woods Project, "Bank Voting Remains Unbalanced."

52. Quoted in David Bosco, "The IMF: Europe Fights Back," November 4, 2010, <http://www.bosco.foreignpolicy.com>; emphasis added.
53. On fragmented and comprehensive regimes, see Robert Keohane and David Victor, "The Regime Complex for Climate Change," *Perspectives on Politics*, March 2011. On the belief–action relationship at different "levels" of learning, see Melford Spiro, "Buddhism and Economic Action in Burma," *American Anthropologist* 68, no. 5 (1966): 1163–73.
54. Wade, "From Global Imbalances."
55. These criteria are proposed by E. Rueda-Sabater, V. Ramachandran, and R. Kraft, "A Fresh Look at Global Governance: Exploring Objective Criteria for Representation" (Working Paper 160, Center for Global Development, February 2009).
56. This is best treated as a hypothesis. The United States and other Part I countries that opposed a GCI for the Bank nevertheless approved large GCIs for regional development banks (e.g., a 200 percent increase for the Asian and African development banks).
57. The World Bank's new information policy makes a presumption that documents should be available in the public domain after ten years. But the Board of Executive Directors insists that its documents be treated under much tighter restriction. The board decides on requests to see transcripts of board meetings more than ten years old on a case-by-case basis. If any one state objects, no grounds for refusal need be given, and other states are unlikely to argue in favor of release. There is an appeal procedure—but the rules say that no board decision can ever be changed as a result of an appeal. The Chinese government has blocked requests to see transcripts relating to China, without challenge. An information policy so circumscribed by political convenience hardly deserves the name.
58. The issue is complicated by rumors that Zoellick is playing a double game: keeping up pressure on Bank member countries for a second term at the World Bank under the banner of "the last American president" while also lobbying the Republican Party to be appointed U.S. treasury secretary if a Republican wins the White House in 2012.
59. Luis Carlos Bresser Periera, *Globalization and Competition: Why Some Emerging Countries Succeed While Others Fall Behind* (Cambridge, UK: Cambridge University Press, 2010).
60. Robert Wade, "Wheels within Wheels: Rethinking the Asian Crisis and the Asian Model," *Annual Review of Political Science* 3 (2000): 85–115.
61. Robert Wade, "After the Crisis: Industrial Policy and the Developmental State in Low-Income Countries," *Global Policy* 1, no. 2 (May 2010): 150–61.
62. A governance separation of IBRD and IDA would undoubtedly have costs, including diseconomies of scale, coordination costs, and adverse incentives, as newly disempowered Part I countries find bilateral aid more to their advantage. My thanks for Guenther Schoenleitner of the Austrian finance ministry for useful comments.

Bio

Robert H. Wade (R.Wade@lse.ac.uk) is a professor of political economy at the London School of Economics and winner of the Leontief Prize in Economics 2008. His book *Governing the Market* (Princeton University Press, 1990, 2004) won the American Political Science Association's Best Book in Political Economy award. He worked as an economist in the World Bank in the 1980s and wrote the history of the Bank's incorporation of an environmental agenda for Devesh Kapur et al., eds., *The World Bank: Its First Half Century* (Brookings, 1997).

This article was downloaded by: [Koc University]

On: 07 April 2015, At: 23:41

Publisher: Routledge

Informa Ltd Registered in England and Wales Registered Number: 1072954 Registered office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH, UK



Challenge

Publication details, including instructions for authors and subscription information:

<http://www.tandfonline.com/loi/mcha20>

The Art of Power Maintenance

Robert Wade ^a

^a London School of Economics

Published online: 07 Dec 2014.

To cite this article: Robert Wade (2013) The Art of Power Maintenance, Challenge, 56:1, 5-39

To link to this article: <http://dx.doi.org/10.2753/0577-5132560101>

PLEASE SCROLL DOWN FOR ARTICLE

Taylor & Francis makes every effort to ensure the accuracy of all the information (the "Content") contained in the publications on our platform. However, Taylor & Francis, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the Content. Any opinions and views expressed in this publication are the opinions and views of the authors, and are not the views of or endorsed by Taylor & Francis. The accuracy of the Content should not be relied upon and should be independently verified with primary sources of information. Taylor and Francis shall not be liable for any losses, actions, claims, proceedings, demands, costs, expenses, damages, and other liabilities whatsoever or howsoever caused arising directly or indirectly in connection with, in relation to or arising out of the use of the Content.

This article may be used for research, teaching, and private study purposes. Any substantial or systematic reproduction, redistribution, reselling, loan, sub-licensing, systematic supply, or distribution in any form to anyone is expressly forbidden. Terms & Conditions of access and use can be found at <http://www.tandfonline.com/page/terms-and-conditions>

THE UNITED STATES AND THE WORLD

The Art of Power Maintenance

How Western States Keep the Lead in Global Organizations

Robert Wade

Is the United States really losing power to developing countries, even China? This political scientist says the West's power, led by the United States, is still preeminent. He presents five case studies to make his point.

Without enhanced cooperation [in response to shared threats like climate change and the tensions that arise between rising and declining powers], the 21st-century world may come to look like the late 19th-century Europe of rivalrous great powers, writ large.

—Timothy Garton Ash, 2012

Senior UN official: “Should international organizations all speak with a single voice about how to handle the global financial crisis?”

European ambassador: “I think yes.”

—personal communication, 2012

ROBERT WADE is a professor of political economy at the London School of Economics, winner of the Leontief Prize in Economics in 2008, and author of Village Republics: Economic Conditions for Collective Action in South India (Cambridge University Press, 1988, 2007).

We don't want UNCTAD providing intellectual competition with the IMF and the World Bank.

—Senior U.S. delegate negotiating UNCTAD's next four-year work mandate, Doha, April 2012

IT IS COMMONLY SAID that the world economy has entered a new, fast-evolving, and multipolar phase (Zoellick 2010). Certainly, over the past decade many developing and transitional countries have grown faster than developed countries. The middle-income countries (including India as well as China) grew at 6 percent a year or more between 2005 and 2010, while the high-income countries grew at 2 percent or less. A growth-rate gap of this size in favor of developing countries is unprecedented.

It is also commonly said that developing countries have been translating increased economic weight into more influence in global governance organizations. For example, the G7 finance ministers' forum was expanded in 1999 to the G20, including eleven developing countries, and in 2008 the G20 finance group was elevated to the G20 leaders or heads of government group. Global coordination bodies like the Financial Stability Forum (FSF) were expanded to include all G20 states and given a stronger mandate, signaled in the case of the FSF by a name change to Financial Stability Board. G20 nationals have taken a rising share of senior positions in global organizations like the International Monetary Fund (IMF) and World Bank. Protracted "voice" negotiations in 2008–10 resulted in substantial shifts in voting shares in the World Bank toward developing and transitional countries, so it is said.

A leading economist at Goldman Sachs in London coined an acronym—BRICs (lower-case s)—to span four of the biggest developing countries (Brazil, Russia, India, China). Thus "acronymed up," these countries started to talk to each other, adding South Africa to make BRICS (upper-case s) and holding occasional meetings at official and ministerial levels, even a summit of political leaders in March 2012 in New Delhi. At the summit they talked of forming a BRICS investment bank, similar to the World Bank. Another acronym—BASIC—has also caught on to cover the same rising countries minus Russia, which is seen as not rising.

The alarm in G7 capitals is captured in a cable released by Wikileaks. It came from the senior U.S. official for the G20 process, in January 2010. He said, “It is remarkable how closely coordinated the BASIC group of countries have become in international forums, taking turns to impede U.S./EU initiatives and playing the U.S. and EU off against each other.” Meanwhile, fearfulness about America losing its preeminent position in the emerging world order has seized the American public. In 2011 only 36 percent of respondents said economic globalization was a positive development, down from 60 percent in 2001.

In other words, the “unipolar” global governance order (beyond the communist bloc)—described by Philip Stephens of the *Financial Times* as “Membership of the west once meant doing whatever Washington said” (2010)—is history, or so it is widely believed.

However, the common narrative about China and some other developing countries rising to challenge the United States and other major Western states turns out to be an exaggeration, at both ends. With the exception of China, developing countries remain lightweights in terms of their share of world gross domestic product (GDP). The United States remains by far the biggest economy, losing little of its preponderant share of world GDP over the past three decades. With 4.5 percent of the world population, it accounts for almost 23 percent of world GDP at market exchange rates and over 19 percent in purchasing power parity (PPP) exchange rates.¹ China, with 19.4 percent of world population and the second-biggest economy, is a long way behind, at 9.4 percent and 13.5 percent of world GDP at market exchange and PPP exchange rates, respectively. Russia and Indonesia are under 3 percent on both measures; Brazil is under 3 percent on the PPP measure but slightly over 3 percent on the market exchange rate measure. By contrast, Japan is over 5 percent on both, and Germany is over 5 percent on the market exchange rate measure (Reissen and Turkisch 2012).

At the other end of the argument, the United States and other Western states continue to set the agenda of global economic and financial governance for the most part, while the big developing countries have exercised negligible leadership so far. For example, a study of more

than fifty transnational institutional innovations over the past one and a half decades found a pronounced North-South governance gap. The innovations include public, private, and hybrid, such as trans-governmental networks (e.g., in finance and accounting), arbitration bodies (e.g., the World Bank's Inspection Panel), multistakeholder bodies (e.g., Global Polio Foundation), and voluntary regulation (e.g., Marine Stewardship Council).

[M]any of the programs rely on Southern participation and serve the interests of Southern stakeholders, [but] *none* of the innovations in transnational governance gathered here can be described as a Southern-led initiative. Instead, Northern actors have driven institutional innovation: states, NGOs, corporations, and international organizations. While some of the innovative institutions (e.g., the World Commission on Dams . . .) have been careful to try to ensure Southern participation, and many of the programs target policies in the global South, Southern leadership remains limited. (Hale and Held 2011; emphasis added)

The emerging world order could be described as a combination of “hegemonic incorporation,” as in the past, protected by institutional rules established when global organizations were created during the period of Western hegemony, and a new “multipolarity without multilateralism.” The result is often stalemate—a long way from enhanced interstate cooperation around increasingly urgent global problems.² It is almost as though, at the global level, we have returned to the situation in the United States before the 1870s, when private logging companies in California chopped down giant sequoia trees without limit. It took John Muir and a public campaign to persuade federal political authorities to use state power to protect the trees and limit private profit-seeking in the public interest. What global coalition might now be powerful enough to act similarly for the global commons that sustain human civilization and the rest of the planetary ecology—in particular, to change institutional rules so as to enable this to happen?

This essay describes five case studies at the “village level” of global politics to show how Western states have managed to retain their position of global leadership even after 2008 and the onset of the long slump in Western economies, even as Southern criticism of their

rule rises. The first one shows how, in 2009, Western states led by the UK and the United States marginalized the United Nations General Assembly from a role in debating the global financial crisis and its impacts, so as to leave the subject to interstate organizations dominated by the West. The second shows how, in 2012, the West almost succeeded in stopping the United Nations Conference on Trade and Development (UNCTAD) from further analyzing the global financial crisis and long slump, for the same reason.

The third case study shows how Western states managed, over 2008 to 2010, to craft a “voice reform” in the World Bank, which appeared to give developing countries a significant increase in their share of votes but in reality failed to do so. The fourth shows how, in 2012, the United States retained the presidency of the World Bank, despite years of member state chorusing that the heads of international organizations like the Bank and the International Monetary Fund (IMF) should be open to all nationalities. The last case study shows how East Asian states *invited* the Western-dominated IMF to function as their imposer of mutual economic discipline in 2009–12, despite the motivation of the arrangement being to escape the clutches of the IMF.³

The West Marginalizes the United Nations in the Financial Crisis

Among those who care about the fate of the United Nations, it is widely assumed—and regretted—that the United Nations stood on the sidelines at the start of the global financial crisis and let the G20, the IMF, and the World Bank take the lead in an international response. Jean-Pierre Bugada, chief of communications for France and Monaco at the UN Regional Information Centre, said the UN “missed the boat with the financial crisis” (Robert 2012).

The accusation is only partly true. More accurately, Western states, led by the UK and the United States, went all out to ensure that the UN did not become a forum for discussion on the crisis, and the UN secretary-general supported them. The result was something close to

multilateral stalemate, as the West wanted. Here is what happened.

Soon after the crash in late 2008 Miguel d'Escoto Brockman, a (suspended) Nicaraguan priest and former foreign minister, who was president of the sixty-third session of the UN General Assembly, initiated a UN-sponsored study of immediate and longer-term measures to mitigate the impact of the crisis and of the necessary reforms to the international financial architecture. The report would be discussed at a specially convened summit of world leaders.

This was an unusual, probably unprecedented, move; eminent-person groups are formed by the UN Secretariat, and normally by the secretary-general himself. Brockman's initiative flowed from his larger agenda of revitalizing the General Assembly to where developing countries have a natural majority, an agenda he announced at the start of his presidency and which he pursued till the end of his one-year term. When asked at a press conference whether he thought the G7, G8, or G20 would do most to help address the crisis, he responded, "I prefer the G192." So in forming the expert group on the financial crisis, his larger aim was to increase the power of the General Assembly by creating the precedent of expert commissions on the model of the Intergovernmental Panel on Climate Change.

The Western states, led by the UK and the United States (most responsible for the crash), opposed the UN initiative. They wanted the G20 and the IMF, where they have much more influence, to take charge of crafting a global response. The UN should have at most an observer role, and the Secretary-General's Office agreed. UN Secretary-General Ban Ki Moon's responsiveness to Western wishes had been one of his strongest recruitment assets, after the less-than-compliant Kofi Annan.

Nevertheless, Brockman managed to recruit a high-powered commission chaired by the Nobel Prize-winning economist Joseph Stiglitz. Its full name was the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System, commonly known as the Stiglitz Commission. The commission set about writing a report.

Brockman understood that the project had to be kept at arm's

length from both the Secretary-General's Office and the UN's Department of Economic and Social Affairs (DESA). They would say that the report had to be "balanced" between neoliberal orthodoxy and the more heterodox views of the commission's members. They would try to remove sensitive topics, such as financial system regulation and reform, and they would try to prevent the commission's report from giving General Assembly members clear principles and prescriptions for debate.

But even Brockman did not anticipate how aggressively the Secretary-General's Office—spurred on by U.S. advisers—would try to obstruct the work of the commission. Without funding from the UN general budget, the president's own discretionary budget was not enough for even one meeting of the commission (airfares, hotels, and expenses). Raising the money was a constant headache. Most of it came directly from member states, whose names have not been made public.

U.S. ambassador to the UN Susan Rice made clear that the U.S. government thought that the G20, not the General Assembly, should be the central forum for debate, and she insisted that the UN process not interfere. Behind the scenes, the U.S. government also wished to boost the global leadership role of Prime Minister Gordon Brown before the April 2009 G20 summit in London.

The UK did most to restrict the commission's work. The UK ambassador to the UN, Sir John Sawers, agitated against the project with other ambassadors and orchestrated telephone calls from the British diplomatic service to nearly all members of the commission telling them they should quit to avoid personal and professional embarrassment. None quit; some were amused.

The report was duly presented, and a major UN conference was held in June 2009 to discuss it, including a small number of heads of government. On the eve of the summit, U.S. president Obama and his advisers debated whether the United States should agree to the document drafted as the conference output. Treasury Secretary Timothy Geithner said the United States should not agree. Ambassador Rice was tactically ambivalent, saying that the United States should not kill the

first major UN conference on the new administration's rule. So they reached a compromise. At the conference the United States voted to approve the document, but then the number two in the U.S. delegation, John Sammis, read out a statement of "clarification" that listed several substantive U.S. disagreements. He concluded by saying that the UN was the wrong venue for discussion of most of the issues.

Finally, paragraph 54 refers to the creation of a working group to follow up issues contained in the outcome. In order to be useful and productive, the working group process must be based on the strengths of the United Nations, which lie in its broad development mandate and large field presence. *Our strong view is that the United Nations does not have the expertise or the mandate to serve as a suitable forum or provide direction for meaningful dialogue on a number of issues addressed in the document, such as reserve systems, international financial institutions, and the international financial architecture.* (Sammis 2009; emphasis added)⁴

The UK and the United States worked hard to ensure that mainstream press coverage would be dismissive of the UN "farce," "circus," "embarrassment"—the terms Sawers used in his campaign to discredit the effort, which were repeated across the media as the reporter's own observations. The attacks were mostly ad hominem, seldom referring to the substance of the issues raised or to the quality of the commission report.

The Western states, coordinated by the UK and the United States, fought to ensure the UN could not do follow-up work, and they rejected a proposal that the commission report back to the General Assembly the following year. The one agreed follow-up was a vaguely worded commitment to establish an "open-ended working group." The commission's organizers got a promise from the incoming president of the General Assembly, Dr. Ali Abdussalam Treki, that he would continue to support the project; but as soon as he took office he dropped the idea, and his successors did not pick it up.

The whole project for the UN General Assembly to take a lead in the international debate about the global financial crisis stalled. As the West wanted, the G20 did the foreplay, and the IMF reassumed the role of sole legitimate forum for hard discussions and negotiations.

UK ambassador Sawers left the UN at the end of the sixty-third session to head up the British Secret Service, MI6. Treki was from Libya, and it became clear that his reason for not keeping his promise to support the follow-up came from making a personal case to U.S. and UK intelligence to be spared the fate of the rest of the government of Muammar Gaddafi. A small number of developing countries, and an EU delegation unwilling to take overt responsibility for killing the conference follow-up, kept the General Assembly process on life support. Debate continued in the Economic and Social Council, to which some topics had been referred for it to bring recommendations to the General Assembly. Some non-UN organizations also helped; for example, the Friedrich Ebert Stiftung (a German social democratic foundation) sponsored a series of expert dialogues on relevant subjects. A few intrepid developing countries have slowly rebuilt the case for a modest General Assembly role in examining specific issues (such as commodity price volatility and enhanced mechanisms for sovereign debt resolution).

Since there is a strong rule requiring formal follow-up to any major UN conference, the project could not be abandoned entirely. But there was another fight over the reporting back to the General Assembly. The United States and the UK wanted to make sure it was a one-time event, organized to guarantee that its conclusions would support Western arguments.

The General Assembly's European cofacilitator from San Marino, who was appointed by the uninterested 2012 president to consult with member states on the issue, concocted a scheme with the Secretary-General's Office to conduct a one-time two-day "High Level Thematic Debate on the State of the World Economy" that would showcase the heads of the Western-dominated IMF, the World Bank, the World Trade Organization, and the Organization for Economic Cooperation and Development (OECD), along with other mainstream eminences. The cofacilitators would then issue a report, and the whole project would thankfully be over.

It did not quite turn out that way. The high-level thematic debate was held in May 2012, almost three years after the initial conference

in June 2009. It was, by design, a low-profile event that attracted scant media coverage. The cosponsors (Ban Ki Moon and the current president of the General Assembly) failed to attract the head of a single major non-UN organization. With few exceptions, the participating heads of state and government were from small developing countries. Some, like the president of Albania, even had the “bad taste” to commend by name the president of the sixty-third session, who made it all possible. But however downgraded, the conference did affirm that its conclusions should provide inputs for further UN follow-up to the report, ensuring that the high-level thematic debate was not quite the end of the affair.

The events related here constitute a conflict around the institutional rules established by the founding fathers of the Bretton Woods organizations (including the Bank and the IMF) in 1945. The founders ensured that the relationship agreements between the UN and the Bretton Woods organizations differed in one important respect from the relationship agreements between the UN and other UN agencies (like the Food and Agriculture Organization and UNESCO). Whereas the General Assembly may “make recommendations” to the others, it may not make recommendations to the Bretton Woods organizations—because the founders knew that the Bretton Woods organizations would be far more important to Western states than the others.

The West Almost Succeeds in Marginalizing UNCTAD in 2012

When UNCTAD was established in 1964 in Geneva as a kind of think tank for developing countries, those countries argued that it must have a mandate for financial issues because of the close link between finance and trade. Western states said, “Over our dead bodies”; finance is for us and our organizations. The deadlock was broken at the last minute when Ted Heath, then president of the British Board of Trade (later prime minister) came to Geneva for the final round of negotiations and met with one of the leaders of the developing country side, an Algerian who had been his Oxford college mate years before. They went

into a small private room and emerged with a suitable compromise: that UNCTAD could appropriately concern itself with the “invisible account” in the balance of payments as it related to trade; the invisible account included finance. The Western side reluctantly agreed.

Over the 2000s, through its annual *Trade and Development Reports* and other publications, UNCTAD produced sustained empirical analyses of global macroeconomic issues and often offered “second opinions” to those of the IMF and the World Bank and the leading Western states. Before and more forcefully than the IMF, its publications warned of the dangers of the prevailing “Great Moderation” narrative. They emphasized rising financial fragility due to the interaction between high private debt to GDP ratios and high current account deficits to GDP in several major Western economies, and the absence of incentives on countries running external surpluses to reduce them (Wade 2009a, 2009b, 2011a, 2011b). It has not hesitated to point to destabilizing government policies, including those of Western governments.

For most of its history, Western states and Western-dominated international organizations have ignored UNCTAD or treated it with the annoyance one might direct toward a fly. Western states have less leverage over it than over most international organizations, because its budget comes mostly out of the overall UN budget. This means that Western states are less able to use conditional financial payments to make UNCTAD say and do what they want, as they can with UNDP and the Bretton Woods organizations, among others.

However, UNCTAD’s governance requires that ministers from its member countries approve a quadrennial mandate and work program for the following four years. In the run-up to the thirteenth ministerial quadrennial conference in Doha in April 2012, Western states made a concerted effort to stop UNCTAD from working on global macroeconomic and financial issues. As a senior U.S. delegate declared in one of the last negotiating sessions in Doha, “We don’t want UNCTAD providing intellectual competition with the IMF and the World Bank.” Another Western delegate said that while UNCTAD had been ahead of the curve on important issues in the past, the IMF

had now “caught up” with UNCTAD, so further UNCTAD work on global macroeconomics and financial crisis was no longer needed.

The Western states together constituted Group B, divided into the European Union (EU) group and the JZ group, where JZ refers to the non-EU OECD countries, including Japan, the United States, Canada, Australia, Norway, New Zealand, Switzerland, and a few others (the group is known by the acronym JUSCANZ, pronounced “juice-cans”). For the UNCTAD negotiations, the JZ group led the Western states, and within it the U.S. delegation led from behind while the Swiss delegation led from in front (the Swiss being the group’s official coordinator). The EU team agreed with JZ on most issues.

The developing countries were grouped into what is called the G77 + China (G77/C). As the negotiations over the mandate went on in Geneva beginning in January 2012, the G77/C, led by their coordinator (Thailand), played an accommodative and moderate game so as not to appear to be the difficult party. The Thai delegation was supported by other “moderates,” including Indonesia, Ethiopia, Tunisia, Morocco, and more. Their critics described them, disparagingly, as “the G77 Friends of JZ.” But few developing countries devoted time to the negotiations in the run-up to Doha. As the negotiations went on and the Western states dug in their heels, a hard core of G77 countries emerged and resisted most of the concessions being made by the Thai coordinator. They were described by some of the moderates as “the hard-liners,” and included Bolivia, Peru, Egypt, Algeria, Iran (Asian Group coordinator), and Zimbabwe (African Group coordinator). They helped to block the accommodating Thai negotiator from making many more concessions to Group B.

China was quietly influential behind the scenes; it leaned toward the “hard-liners” more than toward the “moderates,” but was more concerned than others to maintain consensus within the G77/C. People paid careful attention to what its delegation said, even when they had to read between lines. Brazil and South Africa were little involved until the BRICS (Brazil, Russia, India, China, South Africa) summit in March 2012, when senior officials and politicians finally resolved to pay attention to the way UNCTAD was being marginalized.

The procedure was that the president of the Negotiating Committee (the ambassador from Lesotho) tabled a negotiating text, based on the different groups' position papers and on drafts provided by the UNCTAD secretariat. Delegates from the two Western groups treated it in the manner of gleeful children poking sticks into the spokes of a moving bicycle. No phrase, word, or comma escaped their attention. As they submitted deletions and revisions, and the G77 made countersubmissions, the draft ballooned by the day. Eventually it was jettisoned only three weeks before the Doha conference and replaced with a president's "distilled text." This, as amended over the subsequent days, formed the basis of the document discussed in Doha.

The G20 is an important reason why the G77 + China showed itself to be so unsure of what it wanted. Since the G20 was upgraded to heads-of-government level in late 2008, the big developing countries in the G20 tend to give priority to their G20 membership and are less inclined to engage in forging a common G77 position. So only a few of the major developing countries sent their trade ministers to the UNCTAD meeting—for the ostensible reason that the G20 had at the last minute called a meeting of trade ministers in Mexico on a date that happened to clash with the long-scheduled UNCTAD ministerial in Doha.

However, a few weeks before the Doha ministerial, an open letter by a group of sixty-five former staff of the UNCTAD secretariat plus some civil society organizations brought the issue out of the closed negotiation chamber and into the public domain—alerting countries in the G77/C to what was happening and in the process strengthening the hand of the "hard-liners" worried about the increasingly absurd tone of negotiations. By the time of the ministerial conference in Doha, some major developing countries were prepared to fight back under the G77/C banner, though Indonesia, which took over from Thailand as the group coordinator, was as anxious to be moderate as Thailand had been.

The negotiations in Doha fractured repeatedly on North-South lines, and until the last moment it looked as though, for the first time since UNCTAD VI in 1983 (the sixth quadrennial ministerial conference),

there would be no consensus on the mandate from UNCTAD XIII. Just a few days before the start of the Doha negotiations, the Summit of the Americas ended for the first time ever without a consensus declaration because of unbridgeable North-South differences. Doha looked set to repeat the outcome of the Summit of the Americas.

One of the key issues was a paragraph in the draft text giving UNCTAD a role to “contribute to the work of the United Nations in addressing the root causes and the impacts of the global economic and financial crisis.” The West objected to UNCTAD’s working on “root causes” (which might point to the West); it wanted UNCTAD limited to “impacts on developing countries.” The final agreed-to text came up with the compromise that UNCTAD should “continue . . . research and analysis on the prospects of, and impact on, developing countries in matters of trade and development, in light of the global economic and financial crisis.” The Western groups hoped that by stipulating “developing countries,” they would be able to keep UNCTAD silent about their role in the crisis.

Another North-South fracture came over the phrases “enabling state” and “effective state.” UNCTAD’s mandate from the ministerial conference of four years before, in Accra, had ratified the idea of the “enabling state,” as in the prescription for UNCTAD to help:

developing countries . . . pursue development strategies that are compatible with their specific conditions within the framework of an enabling state, which is a state that deploys its administrative and political resources for the task of economic development, efficiently focusing human and financial resources. [NB: These words are coded skepticism about the universal validity of the Washington Consensus.] Such a state should also provide for the positive interaction between the public and private sectors.

The West tried to replace this in the new mandate with the sentence that UNCTAD should promote “an effective state, working with private, non-profit and other stakeholders” to “help forge a coherent development strategy and provide the right enabling environment for productive economic activity.”

The final text was a compromise. It mentions neither “effective state” nor “enabling state.” It talks only of an “enabling environment,” and the Western groups considered this another victory.

The Western states also objected to any mention in the Doha Mandate of several issues that UNCTAD had sanctioned to work on in the previous Accra Mandate of 2008: issues such as “policy space,” “macroeconomic and development policy,” “systemic coherence,” and “regional financial and monetary coherence.” In effect, the West said, “We do not want UNCTAD to discuss any of these issues, because UNCTAD is not competent to do so. They are for the G20 and IMF.”

So one of the sticking points in Doha became the extent to which the existing work program (Accra Mandate) would be continued, if not intensified, through the new Doha Mandate. The Western groups said that the Doha Mandate should “build on” the Accra Mandate. The G77/C said that “build on” could be taken to imply that the Accra Mandate itself could be superseded—and those controversial subjects dropped. Instead, the G77/C wanted the text to say: “reaffirm and build on” Accra.

In the final hours of the negotiations, the Swiss ambassador, leading the negotiations for Group B, said he would accept “reaffirm and build on” if the G77/C substantially watered down the wording in paragraphs on the U.S. embargo of Cuba and the Israel/Palestine issue. He did not expect the G77/C to agree. But five minutes later, he walked the Cuban delegate to say that he and the U.S. delegate had agreed to language on the Cuban paragraph; and shortly afterward he walked the Palestinian delegate to say he and the Israeli representative had just agreed to language on the Israel/Palestine paragraph. So the Swiss ambassador believed that he had to allow “reaffirm and build on” Accra.

By this time, China, Brazil, and South Africa were in the driver’s seat on the G77 side and made the deals with JZ and EU. At 5 A.M. on the final day—with a press conference scheduled for 10 A.M.—a mandate and a work program for the next four years were finally agreed by consensus. The outcome represents a *draw* between North and South, but at least it gives the secretariat enough wiggle room to continue to work on global macro issues and to present “second opinions” to those of the IMF and World Bank, if the secretariat wishes to take it.

However, the mandate and work program are actually of secondary importance, for all the protracted agony of the negotiations. The main issue is personnel. Who will be appointed as director of the key Division of Globalization and Development Strategies, under whose protection the *Trade and Development Report* is prepared, when the present incumbent retires at the end of 2012? Who will be appointed as secretary-general when the present incumbent (from Asia) finishes his term in 2013? And ditto for the deputy secretary-general (from an EU member state). By the traditional rule of regional rotation, the search is already on for a new secretary-general from Africa.

If the Western states succeed in getting the “right” people into these key positions, not even the Doha compromise mandate will give the organization much protection from being railroaded into safe issues sanctioned by the West, like FDI-friendly investment climate, strong intellectual property protection, good governance, youth, and gender; and away from articulating heterodox arguments on global macroeconomics and national development strategies not to the liking of the Western states. In the months following the Doha conference (to late 2012, the time of writing), UNCTAD lost momentum as the G77 became re-lethargized; the EU and JZ groupings again gave it the cold shoulder; and the secretary-general, his termination in sight, disengaged. This is a victory of sorts for the West.

Western States Retain a Large Majority of Votes in the World Bank, While Appearing Not To

In a speech in April 2010, World Bank president Robert Zoellick (2010) argued that the advent of “a new, fast-evolving multipolar world economy” required fundamental reforms of the World Bank itself, including in the balance of power between developed countries and emerging countries. Soon after, the World Bank presented a set of ostensibly far-reaching proposals on “voice reform,” to be endorsed by its Board of Governors, the culmination of negotiations begun years before. Voice reform had several components, of which the central and most contentious one was voting reform to give developing and

transition countries (DTCs) more voting power in the Bank's governing body (Vestergaard and Wade 2012c).

The governors approved the proposals at the 2010 spring meetings of the World Bank and IMF, and the Bank launched them under the banner "New World, New World Bank."

A modernized [World Bank Group] must represent the international economic realities of the early 21st Century. . . . [W]e are significantly increasing developing and transition country voice across the Group. . . . This realignment strengthens our ability to continue to support the smallest poor members, and demonstrates that a greater say for emerging and developing countries brings with it greater responsibility for the financial soundness of the Bank Group.

The truth is that the new distribution of votes brings it only slightly more into line with the distribution of economic weight than in the past and is much less of a change than the Bank claims to be the case.

The voice reform was guided by several ostensible objectives. One was "parity" between DTCs and developed countries. A second was alignment of countries' voting shares with their relative economic weight. A third was to protect low-income countries from loss of shares. The actual outcome was as follows.

First, the voice reform increased the share of DTCs from 42.60 percent to 47.19 percent and reduced the share of developed countries from 57.40 percent to 52.81 percent. So at first glance, the voice reform brought the World Bank close to voting power parity (50 percent) between developed and developing countries, in line with one of its stated objectives. In reality, the shift was much more modest, because the DTC category includes several high-income countries that should not be in the developing country category and do not borrow from the Bank. Including only low-income and middle-income countries—the Bank's borrower members—the voting share of developing countries increased from 34.67 percent to only 38.38 percent, while the developed (high-income) countries retained more than 60 percent.

Second, relative to the objective of realigning country voting power with country economic weight, the realignment fell well short. So small were the changes in voting power for the vast majority of

countries that one exasperated observer described the negotiations as “a search for compromises at the third decimal point.” The upshot is that ratios of “share of votes to share of world GDP” continue to vary widely from country to country, from 0.5 (China) to 4 (Saudi Arabia), despite the often-declared principle that voting power should “largely reflect economic weight” (so that each country’s ratio should be fairly close to 1). A number of small European countries and a few large DTCs continue to have disproportionately large amounts of voting power, while several dynamic emerging market economies, including China, continue to be significantly underrepresented. The eightfold difference in the extent to which GDP translates into voting power weakens the legitimacy of the World Bank’s governance.

Third, despite repeated assurances to the contrary, low-income countries as a group (as distinct from middle-income countries) gained hardly any voting power. This reflects a pattern of marginalizing the interests of the low-income countries in the voice reform.

Fourth, the voice reform made no headway in reaching agreement on criteria for reallocating votes in future (except that shareholding reviews be conducted every five years). For example, it is unclear whether the next shareholding review in 2015 will take “voting power parity” between developed countries as a group and DTCs as a group as the central objective, and whether and how a country’s financial contributions to the International Development Association (IDA, the soft-loan arm of the World Bank) should be recognized in its share of International Bank of Reconstruction and Development (IBRD) votes (IBRD being the main lending arm).

Fifth, the voting shares announced in the voice reform of 2010 are “rights” to subscribe to a given number of shares. But a government may not exercise its right to subscribe, especially because shares must be matched by capital contributions. Governments have until 2015/2016 to finalize their subscriptions. So until that time the actual distribution of votes will change as governments decide how much of their entitlement to subscribe to. So far (2012) most low-income countries have not subscribed to their full entitlement and many have not subscribed to an increase at all; their share of votes has actually fallen.

Moreover, a number of high-income countries have chosen to reverse their 2010 *promise* to exercise “voluntary forbearance” (not to subscribe to the full amount of the shares they are entitled to so as to leave more for others). By going back on their promise and subscribing to unallocated shares, Japan, Germany, the United Kingdom, France, and Canada have increased their share of total votes by a combined total of 4.1 percentage points after 2010. These countries were among the main losers of the voice reform, but as of 2012 *they have more voting power than they had before the voting reforms*.

The upshot is that just two years after completion of the voice reforms, the modest voting power increases achieved for developing countries have vanished. High-income countries now have 64.87 percent of votes, compared to 65.33 percent before 2008. Low-income countries now have 3.31 percent of votes, compared to 3.45 percent in 2008; and middle-income countries now have 31.81 percent, compared to 31.22 percent in 2008. The total shift of voting power from high-income countries to low- and middle-income countries is no longer 3.71 percentage points, but 0.46 percentage points.

By 2015 more low-income countries may take up their entitlement (if their governments agree to pay more money), so they might end up not experiencing a net loss of voting shares. But there is no reason to think that the rich countries that backtracked on “voluntary forbearance” will suddenly again become virtuous.

The United States Keeps Control of the World Bank

In April 2012 the World Bank elected Dr. Jim Yong Kim, a U.S. citizen, to succeed departing president Zoellick. His appointment fits a long-established pattern: The Bank’s governing body always elects whomever the U.S. government nominates. Similarly, the IMF always elects as managing director whomever the Europeans nominate.

What makes Kim’s appointment remarkable is that it flies in the face of a crescendo of support for opening up the top positions of the Bank and the IMF to international recruitment. The G20 finance ministers and heads of government have several times reaffirmed

their commitment to transparent, merit-based recruitment for the top positions. And in 2012, for the first time, well-qualified candidates from developing countries presented themselves, while Kim's qualifications were questionable. How did the United States again prevail?

The Bank's president is elected through a vote by its board of executive directors, which is the day-to-day governing body of the Bank, with twenty-five seats. The bigger financial-contributor states have their own seats, representing only themselves; the other seats represent constituencies of countries. The executive directors are civil servants from their respective countries. Each casts a vote weighted by the sum of the voting shares of the countries that they represent.

When Zoellick announced his resignation in February 2012, the executive board immediately "reaffirmed the importance of a merit-based and transparent process with all executive directors able to nominate and then consider all candidates." The G24 secretariat in Washington, a small organization that coordinates views among developing country members of the Bank and the IMF, had been preparing for the opening, had approached a number of developing-country candidates, and discussed the organization of a campaign. In the end, two developing-country candidates came forward. One was Ngozi Okonjo-Iweala, a Nigerian generally known as Ngozi, the current finance minister and former managing director at the World Bank. The other was Colombia's José Antonio Ocampo, a former finance minister and current professor of economics at Columbia University, New York.

After dragging its feet, the administration of Barack Obama nominated the relatively unknown Kim, president of Dartmouth College, a medical doctor, former director of the World Health Organization's HIV/AIDs department, and former chair of the department of Global Health and Social Medicine at Harvard Medical School. His special field is mitigating the health consequences of poverty in the poorest parts of the world. He is said to be a close friend of both U.S. secretary of state Hillary Clinton and Treasury secretary Timothy Geithner,

who between them had the main voice in selecting the U.S. candidate. Clinton had earlier sought, unsuccessfully, the administration's permission to announce Kim's coauthor and close colleague at the Harvard Medical School, Dr. Paul Farmer, as the candidate to head the U.S. Agency for International Development (USAID).

Kim's nomination reflected a consensus in U.S. political circles, including the Democratic Party, that the development challenge is to mitigate extreme poverty and particularly its health consequences, and that the World Bank should work less as a bank and more as an aid agency working alongside charities like the Gates Foundation and the Clinton Foundation. This same notion of the development challenge was reflected in the recent appointment of a young physician as administrator of USAID, whose main work experience had been with the Gates Foundation and who champions the social sectors and opposes having USAID work in sectors like infrastructure. In contrast, both Ngozi and Ocampo had long experience in development as a large-scale national transformation project, including governance, economic management, education, health, infrastructure, and environmental management (Briscoe 2012). They had been responsible for setting economic and financial policy in their countries, conducted intergovernmental negotiations, and managed large organizations, as Dr. Kim had not.

One of the strongest critiques of Kim came from a former World Bank economist and current professor of development practice at Harvard University's Kennedy School of Government, Lant Pritchett. Drawing the distinction between national development and humane development (mitigation of famines, pandemics, violence, in very poor parts of the world where national development has failed), Pritchett said, "[Kim's] appointment appears to be an intrusion of the world of humane development into one of the core institutions of national development. By contrast, the nominee backed by many African countries, Ngozi Okonjo-Iweala, has been finance minister of Nigeria and a managing director of the World Bank. . . . [S]he is from the world of national development, rather than the world of humane

development. What has shocked the development world is that President Obama did not seem to know the difference” (2012).

The candidates traveled the world seeking support. Kim had ample resources and strong backing from the administration and Treasury, and he secured key nominations before those governments had even met the other candidates (notably from the Japanese government, which has the second-biggest share of votes on the board). But apart from signing a few newspaper articles on his vision for the World Bank (which had all the hallmarks of having been written by the U.S. Treasury), Kim kept out of sight and took no part in debates arranged with the others. Evidently he was worried that his lack of experience in finance and national development would be exposed.

All three were interviewed by World Bank governors in Europe (ministers of European governments). At the main gathering Ngozi and Ocampo received standing ovations, but Kim did not. A source close to the process reported:

I've seen some of the EU governments' confidential reports of the interviews EU governors had with the three Presidential candidates last week. Of course they all had differing views, but a fair summary would be: Okonjo-Iweala: passionate performer, good knowledge of how the World Bank operates, but her pitch wasn't so well set out or structured. Ocampo: best prepared, clearest ideas about where he would take the Bank, most knowledgeable on economic issues. Quite academic in style. Kim: Very committed, but limited knowledge outside health, and particularly not on finance and economics. (personal communication, 2012)

Another source close to the process said that the general reaction to Kim was that he would be a good executive board member—which is telling, given the lowly status of board members.

The African Union summit of African heads of government unanimously endorsed Ngozi. Two networks of economists sprang up in support of Ocampo, one led by a prominent Chinese economist and two heterodox Western economists, the other linking many Latin American economists.

The candidates were interviewed separately by the executive directors, sometimes one on one, sometimes with executive directors in

groups. The “G11” group of executive directors representing developing countries met several times in the run-up to the board vote. They committed themselves, several times over, to vote according to their judgment of the best candidate, regardless of U.S. wishes.

Two days before the vote, the G11 met for several hours. Near the end they conducted an unofficial ballot. All except one voted for Ngozi. The exception was the Brazilian executive director (also representing Colombia), who voted for Ocampo. After the vote he explained that he would telephone Ocampo and invite him to withdraw his candidacy; at which point he, too, would vote for Ngozi, making a unanimous vote. Ocampo did withdraw in order to give Ngozi a better shot (April 13), resulting in 100 percent support for Ngozi from executive directors representing developing countries.

The result galvanized the Obama administration. It evidently thought that the opportunity for Obama to enter the history books by nominating a woman from an African country who was widely regarded as the best candidate did not warrant the cost of ceding the American monopoly, which could easily be construed as a symbol of Obama unwilling to stand up for America—in an election year with prominent critics declaring, “I wish this president would learn how to be an American,” and “I think it can now be said without equivocation—without equivocation—that this man hates this country. He is trying—Barack Obama is trying—to dismantle, brick by brick, the American dream.”⁵ And though the Bank is no longer a copious source of finance for most developing countries, it is a rich source of information, especially informal political and economic information. Appointing a personal friend as president gives the secretary of state and the Treasury secretary an invitation to contact him at any time of day or night for a chat about what is going on in some part of the world they want to know about, and to suggest deals they would like the Bank to make or not make.

The first to break ranks were the Russians. The next day the Russian foreign minister announced from Moscow that Russia would support Kim. Soon other developing country governments began to peel away. Almost certainly they were offered bilateral deals. Several involved a promise

to appoint a national to positions like chief economist, or treasurer, or head of the International Finance Corporation (IFC—the private-sector lending arm of the World Bank) in return for a vote for Kim.

When the board met to vote (in a closed meeting, with only executive directors present, no advisers, no Bank staff), it first conducted an unofficial vote to see whether consensus was likely, and then the official vote. By this time the big European countries had swung behind Kim. The Latin Americans decided after the unofficial vote that there was no point in annoying the Americans, so they, too, swung behind Kim. The official vote was over 80 percent for Dr. Kim, with only the African executive directors supporting Ngozi. The Africans held out because Ngozi had been supported unanimously by the African Union's heads of government. The World Bank communique about Kim's appointment made no mention of the word "unanimous"—the first time ever that the president had not been appointed unanimously (even the very controversial appointment of Paul Wolfowitz in 2005 had officially been unanimous).

Within the World Bank, many noneconomists, especially in health and education, welcomed Kim's appointment. They appreciated not only his expertise in health, but also his skepticism about Western agencies working with *national* governments of developing countries. He prefers to work closer to the intended beneficiaries—with nongovernmental organizations and at lower levels of government. For these staff, Kim's appointment carried the promise of exciting innovations in Bank operations. Moreover, his appointment resonated with a recent backlash among noneconomists against economists' long dominance of Bank thinking. They have been empowered by the ever-growing significance of Western country "trust funds" for financing Bank operations, which tend to promote a "social first, economic second" view. Finally, Ngozi had established a mixed reputation in people management during her time as a Bank managing director, while Kim gave the impression of being a big improvement over Zoellick, who was known as unwilling to delegate and prone to denigrate his senior officials.

However, most of this "contest" was theater. It was foreordained that

almost whoever the U.S. government proposed would be appointed, for two reasons. The Americans expected that the quid pro quo for their support of the European nominee to replace the disgraced Dominique Strauss-Kahn at the IMF in 2011 would be European support for the American nominee at the World Bank. The Europeans were not about to jeopardize their countries' chances of retaining the managing directorship of the Fund by voting against the American nominee at the Bank. The second reason was that the Obama administration's electoral strategy in an exceptionally evenly balanced presidential race meant it could not afford to give up a symbol of American pre-eminence. It would do "whatever it takes" to ensure that the United States kept the presidency of the World Bank.

In the months after Kim took office, several nationals of big developing countries were appointed to senior positions. Jin-Yong Cai, a Chinese national, was appointed as CEO of the International Finance Corporation in August 2012, the first time the position has been held by a non-European. Kaushik Basu, an Indian national based at Cornell University, was appointed chief economist in September 2012, only the second time the position has been held by a non-Westerner (his predecessor was Chinese).

The story of Kim's ascent shows that, short of a huge change in the distribution of votes, the share of the United States and the Europeans at the Bank and the IMF will always be sufficient for them to protect their monopolies, provided they continue to support each other. The story equally shows how the developing countries' distrust of one another makes it easy for the Americans to split them with bilateral deals.

Still, the good news is that well-qualified non-American candidates presented themselves in 2012 for the first time and went through a semblance of a merit-based selection process. The contest worked to the extent that the official selection was—unprecedentedly—not "unanimous" (in the end some seventy states voted for the non-American candidate, in Africa and Latin America). The U.S. government may have to cut even more deals to retain the presidency the next time around; but the next time may not be until 2022 if Kim is reappointed to a second five-year term.

ASEAN + 3 Invites the IMF to Act as Enforcer of Regional Cooperation

The final case shows a different interstate dynamic than “the West strikes back,” one in which rivalry between China and Japan for regional leadership and mistrust of each other’s commitments led them to *invite* the Western-dominated IMF to be the enforcer of a regional cooperative agreement (Grimes 2011; author interviews, 2010).

The agreement is known as the Chiang Mai Initiative (CMI). It was established in 2000 as an arrangement for bilateral currency swaps between the countries of the Association of Southeast Asian Nations (ASEAN) plus China, Japan, and South Korea. It was intended to provide a supply of emergency liquidity to member countries facing currency crises—and avoid the need to depend on the IMF, which was seen throughout the region as having abused its power in its emergency loans during the Asian financial crisis of 1997–98, at the behest of the U.S. Treasury. The 1997–98 crisis is often referred to in the region as “the IMF crisis.”

However, from the beginning the CMI created an “IMF link,” such that a country could only access no more than a small proportion of its line of emergency credit after it entered into negotiations with the IMF for a standby agreement. In this sense the CMI was nested within the IMF and its Western-dominated field of power.

In 2007 the member states agreed to expand the CMI beyond bilateral currency swaps and establish a foreign exchange fund, a weighted voting system for disbursement of funds, and stronger surveillance of members’ economies. They also agreed to establish a headquarters. By 2009 China and Japan had each agreed to contribute 32 percent of the fund, and South Korea another 28 percent, leaving 20 percent to be provided by the ASEAN countries. The beefed-up CMI was renamed the Chiang Mai Initiative Multilateralization (CMIM).

The government of Singapore provided headquarters. But which country would provide the first president, and thereby impart directional thrust? China, Japan, and ASEAN each put up a candidate, and ASEAN hoped that the mistrust between China and Japan would pave the way for its candidate. Equally contentious was the full spelling

of the acronym for the headquarters' name, AMRO. "ASEAN + 3 Macroeconomic Research Office," insisted the Chinese. Others insisted on "ASEAN + 3 Macroeconomics *and* Research Office." The former title implies it is only a research organization, while the latter, with "and" between "Macroeconomics" and "Research," implies a more expansive role. The champions of the second spelling conceived "macroeconomics" as code for *surveillance* of member economies—including surveillance of, for example, the Chinese economy and its exchange rate, something the Chinese side was none too keen on. To cut a long story short, in 2010 when the scheme officially started, the Chinese provided the first president and the official name was ASEAN + 3 Macroeconomic Research Office, as the Chinese wanted.

For present purposes the important point is that the IMF link continues. China and Japan saw it as the only workable solution to the problem of moral hazard inherent in emergency lending—the problem that if a government knows it will get emergency loans without conditions, it may behave profligately and bring crises upon its own economy. Avoiding moral hazard requires that member countries agree to some combination of (a) withholding emergency lending from a government that—they agree—has brought crisis upon itself (as distinct from suffering contagion), which is *ex ante* conditionality, or (b) imposing tough conditions on emergency loans, which is *ex post* conditionality, or (c) delegating the determination of whether and with what conditions to lend to an independent body. The trouble is that imposing *ex ante* or *ex post* conditionality has political costs for those who impose it. It raises the prospect that China or Japan, with their overflowing foreign exchange reserves, would seize the opportunity to curry favor with a crisis country by secretly lending to it with soft conditions, undercutting the collective agreement and making the others look "unhelpful" in the eyes of the crisis country.

Hence the CMIM continued to cast itself into the arms of the IMF, even though the motivation for the scheme had been to provide East and Southeast Asia with more governance autonomy. Many officials involved with the scheme hang their heads in shame that their govern-

ments cannot agree to give mutual financial support independently of the West, but they see no alternative.

Moreover, when South Korea needed emergency liquidity in late 2008, it went straight to the U.S. central bank (the Federal Reserve, the Fed), avoiding the CMIM—and so avoiding the humiliation of again (as in 1997) having to go to the IMF. Indonesia, too, bypassed the CMIM and went to Japan. The two governments may have feared that resort to the CMIM might signal a loss of market confidence.

Korea was not the only crisis-hit country that sought temporary swap lines with the Fed at this time; so did several large upper-middle-income countries. Their choice is powerful testimony to the continuing structural power of the U.S. central bank and its dollar system, all the more so because the U.S. economy at this time was in deep crisis of its own making.

Conclusions

Global governance is more fractured and turbulent than it has been for many decades. The causes are partly near-term ones relating to the global financial crisis and the long slump, and the tensions generated in interstate economic relations as countries try to export their unemployment elsewhere. The causes are also more structural, relating to the increasing disassociation among the major economies between countries' economic weight (measured by GDP) and their average income, as developing countries led by China take more positions in the world's top ten economies by GDP even as their average incomes remain a fraction of those of Western economies. This greatly increases the diversity of interests among the top ten economies as compared to earlier decades.

However, a second structural variable, after GDP, tends partly to counterbalance the rise of the South in terms of GDP: capital markets. With the U.S. dollar as the international reserve currency, the United States completely dominates the global capital market, with the UK, Europe, and Japan following behind. This gives the U.S. central bank, and the U.S. government more generally, great leverage over other

governments, especially in crisis conditions like the ones since 2007–8; for example, in setting the terms of U.S. dollar swap arrangements of the kind the Fed entered into with Korea in 2008 and then, in May 2010, with the Bank of Canada, the European Central Bank, the Bank of England, the Bank of Japan, and the Swiss National Bank.

All great powers, including poor ones, resist giving up privileges, as seen currently in China's resistance to change in the UN Security Council. So it is hardly surprising that leading Western states, long accustomed to cooperating in directing global governance, resist ceding power and flock around the United States as their leader in the financial and economic sphere. All are affected by the centripetal force of the U.S. preternatural fear of China, which now serves as the unifying threat in place of the erstwhile Soviet Union.

This essay has illustrated how the tension between the United States and other members of the G7, on the one hand, and the newcomers, on the other, is playing out at the village level of world politics. If, like anthropologists, we define the plural of "anecdote" as "evidence," we can conclude that Western states have been strikingly successful in their efforts to keep control of the commanding heights. Their success owes much to institutional rules they put in place decades ago, long before talk of the rise of the South.

The story of the UN General Assembly's commission on the global financial crisis, and the story of the negotiation of UNCTAD's mandate for the next four years, illustrates the ability of leading Western states to marginalize global organizations they do not clearly control and to hold debate on matters of direct interest in forums they better control, like the Bank and the IMF. They can—almost—keep the UN out of global economic and financial issues covered by the Bank and the IMF by appealing to the relationship agreements established at the founding of the two organizations in 1945, which are the same as those for other UN organizations except in saying that the UN General Assembly may not make recommendations to them—which the Western states use as justification for keeping the UN out of subjects where developing countries might use their greater influence to make stronger criticisms of Western countries' policies and institutions

than do their more marginalized representatives in the IMF and the Bank.

The story of the U.S. government's success in retaining the presidency of the World Bank illustrates the institutional mechanisms that allow it to protect its monopoly even in the face of a normative consensus that such positions should not be restricted to particular nationalities. It also shows the distrust between developing country states, which makes it easy for the Americans to split them with bilateral deals.

Indeed, the leading developing country representatives were most likely *pretending* to rally around a non-American in order to extract bilateral concessions from the Americans—including access to more senior but not topmost positions. In China's eyes, the head of the IFC (previously always a European) is quite enough reward for the moment, in its longer-term strategy to build its influence brick by brick, especially because the IFC deals directly with foreign direct investment (FDI), and the Chinese government is keenly interested in boosting FDI in China and helping its firms invest abroad.

The World Bank story also shows signs of the incremental shift in power toward not developing countries in general but the BRICS. The fact that the United States had to cut bilateral deals with BRICS countries to ensure Dr. Kim's election reflects its calculation that it had to recognize their support by offering them the second-level prizes. This is especially because it wants the bigger and more prosperous developing country states to contribute more finance to the International Development Authority, so that the U.S. Treasury is able to reduce its contributions without ceding its dominant position; its aim is "same power for less money."

Cooperation-eroding distrust between developing countries is also a theme of the fifth case study. Even the most economically successful region of the developing world, East and Southeast Asia, has only slowly and painfully been able to construct regional organization. East and Southeast Asian states still reflexively look to the United States and other G7 states or to organizations dominated by those states. In the case of the CMIM, the distrust between China and Japan

meant that the members built in an “IMF link,” which restricted the organization’s ability to make resource decisions independently of the Western-dominated IMF, even though one of the primary motivations for the foreign exchange pooling agreement was to reduce vulnerability to IMF and Western influence.

The elevation of the G20 to heads of government status in late 2008 is a helpful development for the West, because it weakens a developing-country bloc. The governments of major developing countries tend to give priority to their participation at the top table, where they rub shoulders with representatives of the United States, the UK, Germany, and other established Western ruling powers. There they tend either to go along with the G7 view or to block specific discussions that might impinge on national interests (China on exchange rates, for example). Western states can easily split them.⁶

But there are small signs that the BRICS are seeing eye to eye on some issues. The talk about a BRICS bank is one. Another sign at the village level comes from a recent meeting of a subcommittee of the board of executive directors at the World Bank. Representatives of the UK and the United States were complaining, yet again, about the overgenerous payment of Bank staff and insisting that staff compensation be cut to ensure the Bank’s financial health. The Chinese representative responded with a passionate and voluble defense of staff compensation levels, to general amazement, saying that China is a borrower from the Bank and wants to sit at the table with *top-quality* staff. He pointed out that since the United States and the UK did not borrow from the Bank, they were unconcerned that staff quality was deteriorating even at the existing levels of compensation. If anything, staff compensation should be increased, he said. The Indian and Russian representatives agreed with the Chinese.

The evidence presented here suggests that even the modest increase in assertiveness of some developing countries is restricting the scope of global mandates to narrow and loosely coupled agreements of a kind that can be reached by overcoming coordination problems of the prisoner’s-dilemma kind, where the parties agree on the nature of the problem. Bigger advances in the form of strong, integrated regulatory

systems will be blocked as more states, at different average-income levels and with non-Western cultures, assert divergent national interests and fundamental beliefs in the top forums (for example, on the economic role of the state, on exchange rate management), and Western states resist ceding long-established dominance. Finding areas of interstate agreement where fundamental beliefs diverge is more intractable than solving coordination problems.⁷ Yet it is doubtful that narrow and loosely coupled agreements on finance will suffice to avoid more multicountry financial crises at the past frequency of one every five to seven years. It is also doubtful that such narrow agreements can prevent an intolerable temperature rise by 2050 and the erosion of the planet's biotic capacity. The question is how much further into economic and ecological crises we have to go before the major states, whether the G20 or a replacement, act concertedly to forge stronger and more integrated regulatory systems, regionally and globally (Vestergaard and Wade 2012b).

Meanwhile, the story of the Stiglitz Commission underlines the responsibility of Western media to undertake independent investigation rather than parrot the views of representatives of Western states as their own. And it is surely in Western states' longer-term interest to soften their attempts—as expressed in the second and third epigraphs—to smother the articulation of views on global macroeconomic, financial, and trade issues different from established Western ones. Since they continue to hold the dominant position in global governance, they have the main responsibility for steering the interstate system away from the fate described in the first epigraph.

Notes

1. On the distinction between market exchange rates and purchasing power parity exchange rates, see Wade 2011c.

2. See further Wade 2011a. On the G20 see Vestergaard and Wade 2012a, 2012b.

3. Except where otherwise indicated, the following case studies are based on interviews with people who requested anonymity, and some participant observation.

4. The statement includes the following:

On the governance of international financial organizations: “The outcome offers views in several paragraphs, including paragraphs 2, 17, 43, 47, and 49, on the governance and operational aspects of the international financial institutions, and the Bretton Woods institutions in particular. The international financial institutions have governance structures, as set out in their respective Articles of Agreement, that are independent of the United Nations. Any decisions on reform of the international financial institutions or the manner in which they conduct their business are the prerogative of the shareholders and their respective Boards of Governors. Consequently, my government does not interpret the language in this document as endorsing a formal United Nations role in decisions affecting the international financial institutions or international financial architecture.”

On capital controls: “Paragraph 15 also mentions temporary capital restrictions and debt standstills as mechanisms for addressing shortages of foreign reserves. The United States does not condone the use of capital controls. If used, capital controls and debt standstills should only be taken as a last resort, on a temporary, exceptional basis, as possible breathing space for more comprehensive economic reform, and in accordance with existing multilateral and bilateral frameworks and agreements.

“Countries experiencing balance of payments problems need to maintain investor confidence and continued inflows of capital to promote development. However, experience shows capital controls and similar measures undermine investor confidence, reduce capital inflows, and are ineffective at redressing payments crises. Although possibly palliative, they tend to delay necessary policy and economic reforms while raising the cost of capital to domestic small and medium size firms critical to employment generation. They also impose high administrative costs to enforce.” (Sammis 2009)

5. The first quotation is from John Sununu, a former governor of New Hampshire; the second from Rush Limbaugh, the radio talk show host (quoted in Dowd 2012).

6. In the General Assembly, where nothing much is at stake, developing countries are more prepared to take a different stand from the West. One measure of Western influence is the voting coincidence score, which measures the amount of support a state receives from other states in the General Assembly. In the late 1990s the EU and the United States received around 70 percent support for their positions on human rights. By 2009–10 the score had fallen to only 40–42 percent. China and Russia increased their score from around 40 percent and 60 percent in the late 1990s, respectively, to around 70 percent today. See Gowan and Brantner (2010).

7. On fragmented and comprehensive regimes, see Keohane and Victor (2011). On the belief-action relationship at different “levels” of learning or enmeshment, see Spiro (1966).

For Further Reading

- Briscoe, J. 2012. "A Time for India to Stand Up and Be Counted." *The Hindu*, March 30.
- Dowd, M. 2012. "Who's on America's Side?" *New York Times*, July 17, www.nytimes.com/2012/07/18/opinion/dowd-whos-on-americas-side.html.
- Garton Ash, T. 2012. "Can Europe Survive the Rise of the Rest?" *New York Times*, September 1, www.nytimes.com/2012/09/02/opinion/sunday/can-europe-survive-the-rise-of-the-rest.html.
- Gowan, R., and F. Brantner. 2010. *The EU and Human Rights at the UN*. London: European Council on Foreign Relations.
- Grimes, W. 2011. "The Asian Monetary Fund Reborn? Implications of Chian Mai Initiative Multilateralization." *Asia Policy* (January): 79–104.
- Hale, T., and D. Held, eds. 2011. *Handbook of Transnational Governance: New Institutions and Innovations*. Cambridge, UK: Polity Press.
- Keohane, R., and D. Victor. 2011. "The Regime Complex for Climate Change." *Perspectives on Politics* 9, no. 1: 7–23, doi: <http://dx.doi.org/10.1017/S1537592710004068>
- Pritchett, L. 2012. "Why Obama's World Bank Pick Is Proving So Controversial." *New Republic*, April 11, www.tnr.com/article/politics/102624/why-obama%E2%80%99s-world-bank-pick-proving-so-controversial/.
- Reissen, H., and E. Turkisch. 2012. "Shifting Wealth: The Recalibration of Global Development." Development Center. OECD, Paris.
- Robert, A.-C. 2012. "The Other UN." *Le Monde Diplomatique* (English edition), June, <http://mondediplo.com/2012/06/13un/>.
- Sammis, J.F. 2009. "Statement by John F. Sammis: Alternate Head of Delegation, on the Adoption of the Outcome of the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development. June 26, 2009." U.S. Mission to the United Nations, New York, <http://usun.state.gov/briefing/statements/2009/125814.htm>.
- Spiro, M. 1966. "Buddhism and Economic Action in Burma." *American Anthropologist* 68, no. 5: 1163–73.
- Stephens, P. 2010. "The West Must Offer Turkey a Proper Seat at the Table." *Financial Times*, June 18, www.ft.com.
- Vestergaard, J., and R. Wade. 2012a. "The Governance Response to the Great Recession: The 'Success' of the G20." *Journal of Economic Issues* 46, no. 2 (June): 481–90.
- . 2012b. "Establishing a New Global Economic Council: Governance Reform at the G20, the IMF and the World Bank." *Global Policy* 3, no. 3: 257–69, www.globalpolicyjournal.com/articles/world-economy-trade-and-finance/establishing-new-global-economic-council-governance-reform-/, doi: 10.1111/j.1758-5899.2012.00169.x
- . 2012c. "Protecting Power: How Western States Managed to Retain Their Voice in the World Bank's Governance Reforms." Forthcoming.
- Wade, R. 2009a. "The Global Slump: Deeper Causes and Harder Lessons." *Challenge* 52, no. 5 (September–October): 5–24.

- . 2009b. "From Global Imbalances to Global Reorganizations." *Cambridge Journal Economics* 33, no. 4: 539–62.
- . 2011a. "Emerging World Order? From Multipolarity to Multilateralism in the G20, the World Bank and the IMF." *Politics & Society* 39, no. 3: 347–78.
- . 2011b. "The Economy Has Not Solved Its Problems." *Challenge* 54, no. 2 (March–April): 5–41.
- . 2011c. "Globalization, Growth, Poverty, Inequality, Resentment, and Imperialism." In *Global Political Economy*, ed. John Ravenhill, 372–415. Oxford: Oxford University Press.
- Zoellick, R. 2010. "The End of the Third World?" Address delivered before the Woodrow Wilson Center for International Scholars, Washington, DC, April 14.