

## Introduction

In a tectonic shift, by 2030, Asia will have surpassed North America and Europe combined in terms of global power . . . largely reversing the historic rise of the West since 1750 and restoring Asia's weight in the global economy and world politics.<sup>1</sup>

– *The US National Intelligence Council*

We live in an era of unprecedented power transitions from the West to the East. This brings to the fore a perennial theme in world politics: whether and how shifts in material power lead to a new balance between costs and benefits of maintaining the international system.<sup>2</sup> This book aims to contribute to the scholarship about hegemonic transition and world order by anchoring this grand inquiry in a solid empirical ground to examine how the World Bank – a cornerstone of the US-led contemporary world order – has adapted to changing power balances in the past five decades.

This chapter proceeds as follows: first, it discusses why exploring the implications of hegemonic transition for the contemporary world order entails looking inside international organisations (IOs); second, it explains why the World Bank-IDA is a crucial case for exploring how IOs adapt to contemporary power transitions in a US-centred international system; third, it moves on to analyse why exploring the question of how member states distribute the costs of financing IOs (i.e., burden-sharing) offers a unique analytical angle for examining whether and how power shifts might redistribute the costs and benefits of maintaining the international system; and, finally, it explains why the in-depth investigation in this book of the international diplomacy behind donor financing of the World Bank's aid window helps to reveal that the process of hegemonic transition is far from a smooth and technocratic adjustment. The chapter concludes with the roadmap of the book.

<sup>1</sup> National Intelligence Council (2013: 15).    <sup>2</sup> Gilpin (1981); Kennedy (1988).

## **I.1 Hegemonic Transition inside Multilateral Institutions**

The contemporary hegemonic transition from the United States to China has sparked heated debates about the prospect of the American world order.<sup>3</sup> Will some kind of Chinese ‘authoritarian model’ dominate the twenty-first century, at the risk of reversing political democratisation and economic liberalisation?<sup>4</sup> Will the US-led ‘liberal international order’ be resilient enough to survive tectonic power shifts from the West to the East?<sup>5</sup> Or, will the twenty-first century be ‘no one’s world’? Is a dark era of ideological contention and geopolitical rivalry looming large?<sup>6</sup>

The above grand debates offer vital insights. But our knowledge about the contemporary hegemonic transition is fundamentally incomplete if multilateral institutions are left out of the analysis. There are two compelling reasons why we cannot afford to ignore the role played by multilateral institutions in these processes of hegemonic transition.

First, multilateral institutions play an indispensable role in the contemporary US-led hegemonic system.<sup>7</sup> At the close of World War II, at the zenith of its hegemonic power, America led the construction of an international order designed to save the world from falling into the kind of chaos exemplified in ‘the twenty years’ crisis’ during the interregnum of power transitions (1919–39).<sup>8</sup> As manifested in the creation of the World Bank, the International Monetary Fund (IMF), and the attempt to create an international trade organisation (later evolving into the World Trade Organisation [WTO]), the United States committed itself to creating a liberal international economic order. The United States was also dedicated to building a more democratic and stable international political order, with the major institutional expression being the United Nations (UN). Hence, multilateral institutions are the very fabric of the contemporary international system.

<sup>3</sup> Power transitions here refer to shifts in material capabilities among states. It is analytically useful to distinguish ‘power transition’ (from one dominant state to another) from ‘power diffusion’ (from states to non-state actors) (Nye 2011: 113).

<sup>4</sup> Halper (2010). <sup>5</sup> Ikenberry (2011: 336–42). <sup>6</sup> Kupchan (2013: 5).

<sup>7</sup> Ikenberry (2001). <sup>8</sup> Carr (1946).

Second, multilateral institutions are exactly the spaces in which competition between states plays out. The pursuit of international cooperation does not rule out the possibility that states wield power to seek national interests.<sup>9</sup> Indeed, IOs are vital vehicles for ruling the world.<sup>10</sup> Rising powers actively use these institutions to promote their international status.<sup>11</sup> Amid power struggles between states, IOs are by no means passive puppets fully controlled by member states. In fact, ‘Management’ in IOs (or, international bureaucracy) can play an independent role in shaping power politics.<sup>12</sup> Thus, multilateral institutions are arenas for intensifying power struggles as material power shifts among states.

This book aims to fill the gap in the grand debates about hegemonic transition by engaging with the inquiry of how the World Bank – a cornerstone of the US-led contemporary world order – has adapted to changing power balances. Filling this gap is of crucial importance to understanding the United States’ relative hegemonic decline and China’s corresponding rise. Although the literature examining the implications of the hegemonic transition from the United States to China for international security is numerous,<sup>13</sup> little is known about why rising China, a former World Bank recipient, decided to become a new donor of the Bank’s aid window in 2007 before launching a new set of multilateral institutions, including the Asian Infrastructure Investment Bank (AIIB), outside the US-centred Bretton Woods Institutions and other established multilateral agencies.

## 1.2 The World Bank-IDA: A Cornerstone of the US World Order

As a foundation of the Bretton Woods system, the World Bank is the most prominent multilateral development institution in the post-World War II period. The Bank’s aid window is the first international aid organisation established under US leadership.

Founded in 1960, IDA was born out of North–South and East–West power struggles. In the wake of unprecedented decolonisation

<sup>9</sup> Martin (1992: 765–92). <sup>10</sup> Gruber (2000).

<sup>11</sup> Rosecrance and Taw (1990: 184–209); Lanteigne (2005: 1).

<sup>12</sup> Barnett and Finnemore (2004).

<sup>13</sup> The literature is vast: see Ross and Zhu (2008), Buzan (2010: 5–36), Friedberg (2005: 7–45), and Schweller (1999).

movements, newly independent developing countries had been vigorously campaigning for a sizeable international development fund under 'one country, one vote' UN control throughout the 1950s. This proposal was initially dismissed by rich industrialised countries, especially the United States. Yet, as the Soviet Union expanded its influence in the non-aligned developing countries, the United States took the leadership role in establishing IDA under the aegis of the West-dominated World Bank in an effort to counterbalance the Soviet influence in the Third World and to exert a strong influence on how and where to use the funds in recipient countries.

At first glance, IDA appears to be insignificant, as the role of IDA as a finance-provider is diminishing: IDA only provided about 6 per cent of official development assistance (ODA) to developing countries in 2013 – down from nearly 10 per cent in 2001.<sup>14</sup> As the new millennium dawned, growth engines in LICs ignited, reducing their aid dependence. IDA's financial leverage was thus declining.<sup>15</sup>

Despite its recent dwindling share of external finance to developing countries, IDA was once the linchpin in the international aid architecture. In the 1960s, IDA was 'the single most significant' multilateral channel of concessional loans to low-income countries (LICs).<sup>16</sup> IDA's pre-eminent position was strengthened in the 1970s.<sup>17</sup> As debt crises exacerbated aid dependency of LICs in the 1980s, IDA played a key role in leveraging market-oriented policy reforms in LICs.<sup>18</sup> After the end of the Cold War, although IDA was facing increasing competition with proliferating multilateral aid channels in an international aid market that was shrinking as the collapse of the Soviet Union obviated the need for the West to offer aid to counter the Soviet threat, it still provided about a third of total multilateral aid to LICs.<sup>19</sup>

Furthermore, IDA as a key strategic instrument has enabled the United States to project its influence worldwide.

<sup>14</sup> Net ODA disbursements of IDA as a percentage of total ODA provided by Development Assistance Committee (DAC) donors, from OECD DAC Aid Statistics.

<sup>15</sup> ActionAid (2011).

<sup>16</sup> The UN development agencies mainly provide grants rather than loans.

<sup>17</sup> While bilateral aid was the principal channel for disbursing aid, IDA's share of total ODA rose from 8 per cent in 1970 to 14 per cent in 1981. See IDA-7 Replenishment Agreement, para. 1.2.

<sup>18</sup> Mosley, Harrigan, and Toye (1991). <sup>19</sup> OECD Aid Statistics.

First, the World Bank-IDA is a critical lens for deciphering East–West and North–South geopolitical power struggles. During the Cold War, IDA was a pivotal US geopolitical instrument for accommodating the Third World’s demand for development assistance in order to gain an upper hand in the East–West aid-giving contests in non-aligned peripheral states.<sup>20</sup> In the mid-1970s, as the united Global South called for a New International Economic Order, the United States led Western donors to boost their financial support for IDA in order to pre-empt an overhaul of a West-dominated international system.<sup>21</sup> Then, as the bipolar rivalry faded away, IDA has been a key instrument for integrating developing countries into ‘a liberal-capitalist world order’ consistent with US interests and values.<sup>22</sup> Hence, the wider East–West and North–South geopolitics plays a pivotal role in grasping power struggles within IDA.

Second, the World Bank-IDA is a norm-setter in the field of international development. As an idea shaper, the United States usually pilots new ‘best practices’ in IDA, which then spread to aid windows of Regional Development Banks (RDBs) and other aid agencies. For instance, the performance-based aid allocation rules have been replicated in RDBs after the United States first pushed it through in IDA. As China is rising as a development financier, will China’s aid, with ‘no strings attached’, challenge the mainstream proper rules of conduct promoted by the United States? Exploring the battle of ideas in IDA helps us to better grasp whether China’s rise poses an ideological challenge to American leadership in the arena of international development.

In summary, the World Bank-IDA is a crucial case for examining how a US-led hegemonic international system adapts to power transitions.

### I.3 International Politics of Burden-Sharing

Exploring how power transitions play out at the World Bank leads us to examine an understudied research question of how donors distribute the cost of financing the Bank’s aid window. IDA raises donations from donor governments and then offers concessional loans and grants to

<sup>20</sup> Kapur, Lewis, and Webb (1997: 1127–28).

<sup>21</sup> See Chapter 4 for more information. <sup>22</sup> Walt (2005: 30).

the world's poorest developing countries. Unlike the IBRD – its parent institution – which functions as a self-sustaining business by raising funds from capital markets, IDA has to be regularly 'replenished' by donors since IDA's concessional financing is far below market interest rates. From 1960 to 2010, IDA completed sixteen rounds of replenishment negotiations, normally at three-year intervals (in shorthand, known as 'IDA-1', 'IDA-2', etc.).<sup>23</sup>

At first glance, burden-sharing appears to be simply a financial issue, but it is actually deeply political. Burden-sharing arrangements matter because of the close relationship between providing resources and influencing outcomes. Member states proactively deploy their financial leverage to vie for their desired influence both within and beyond IOs, in line with the common wisdom that 'he who calls the tune should pay the piper' (i.e., financial contributions and influence should be commensurate in IOs). Therefore, exploring the politics of IDA burden-sharing offers a unique analytical angle for unpacking how rising powers and declining powers engage in the redistribution of financial cost and state influence in the World Bank as power shifts.

Despite a large body of literature on World Bank governance, no systematic effort has been undertaken to examine the history of IDA replenishments.<sup>24</sup> One major reason for the gap is a lack of data. Only the information about recent IDA replenishments since 2000 is publicly available online. The IDA replenishment process itself also receives scant attention. For instance, the two official histories of the World Bank offer only a broad-brush description of IDA replenishments.<sup>25</sup> To contribute to the grand inquiry into how the US-led hegemonic international system has adapted to power transitions, the author took the initiative in requesting declassification of over 180 folders of the World Bank archives and conducting some 100 intensive interviews to make a first authentic account of IDA replenishment history, not possible before this point.

<sup>23</sup> The most recent IDA-17 was completed in December 2013. For a review, see Manning (2014).

<sup>24</sup> While Clegg (2014) examines the politics of concessional lending in the World Bank, it fails to systematically investigate the politics of IDA burden-sharing throughout the replenishment history.

<sup>25</sup> The first official history offers a short account up to IDA-3 (Mason and Asher 1973: 406–13); the second gives a brief review of 'the replenishments in sequence' up to IDA-10 (Kapur, Lewis, and Webb 1997: 1141–44). This may be understandable, given the comprehensive nature of their endeavour.

While there have been numerous burden-sharing studies, this strand of literature primarily focuses on military alliances, especially the North Atlantic Treaty Organisation (NATO).<sup>26</sup> While the burden-sharing literature has later extended to other issue areas such as refugee protection,<sup>27</sup> so far only a few ‘exploratory’ studies statistically test burden-sharing of multilateral or bilateral aid.<sup>28</sup> And little has been done to study donor contributions to a specific international aid organisation.<sup>29</sup>

Given the apparent lacuna in the literature on IDA burden-sharing, unpacking the international politics of IDA burden-sharing makes an original empirical contribution, shedding light on the wider debates about hegemonic transition and world order.

#### I.4 Hegemonic Transition in Action

The grand debates about hegemonic transition and world order have concentrated on the central inquiries of (a) whether a declining hegemon would continue to maintain the burden of maintaining the existing order, clinging to its hegemonic influence, and (b) whether a rising challenger would bear more burden seeking incremental influence within the old order, or erect an alternative order at the expense of the waning hegemon. In essence, at the heart of the debate is whether and how shifts in material power can lead to a new balance between burden-sharing and influence-sharing in the existing (or newly extended) international system. To anchor this grand inquiry in a solid empirical ground, this book makes an original analysis of what drove changes in IDA burden-sharing patterns embedded in changing power balances within the US-led hegemonic international system over the past five decades.

The baseline explanation suggests that the cost of financing IOs will be redistributed in line with changing relative economic fortunes, resulting in concomitant shifts in member state influence in IOs. This prediction accords with the perceived wisdom that ‘countries should give more aid as they grow richer’ and that ‘he who pays the piper calls

<sup>26</sup> The literature is vast. For a summary, see Sandler (1993: 446–83).

<sup>27</sup> For a special issue, see Thielemann (2003: 225–35).

<sup>28</sup> Addison, McGillivray, and Odedokun (2004: 173–91); Mascarenhas and Sandler (2006: 337–57).

<sup>29</sup> For an exception, see Roper and Barria (2010).

the tune'.<sup>30</sup> This indicates a smooth and technocratic process of hegemonic transition, as power shifts, burden-sharing, and influence-sharing would automatically adjust to new power balances.

But when we look inside the actual dynamics behind donor financing of the World Bank's aid window, we see a much more complicated picture. An in-depth investigation of IDA replenishment history reveals that adjustment in burden-sharing and influence-sharing amidst power transitions is far from a smooth and automatic process.

Three salient deviations from the baseline prediction may be identified:

1. Capacity-to-Contribution Gap: The hegemon honoured its traditional burden shares despite its relative economic decline, when faced with looming external geopolitical threats;
2. Contribution-to-Influence Disparity: The hegemonic influence at the World Bank persisted and even amplified, despite its flagging financial contributions to IDA;
3. Contribution-to-Influence Discrepancy: The hegemonic legitimacy began to be contested by other donors to the tipping point where, since the new millennium, the US hegemonic influence progressively eroded, despite only a mild further US share cut.

An in-depth investigation into the IDA replenishment history reveals two new insights: First, changes in US burden shares were not simply driven by the rise and fall of the hegemon's relative economic capability, but shaped distinctly by the intensity of geopolitical threats perceived by the hegemon. Looming geopolitical threats could arrest a potential US share cut even in times of its relative economic decline. The hegemon strived to honour its traditional share so as to expand total IDA resources to counter the influence of the Soviet Union and a united Third World. Hence, burden-sharing adjustments in IDA were not merely about bargaining games between rising powers and declining powers within the US-centred Western hemisphere, but also deeply shaped by power struggles between the hegemon and its geopolitical rivals.

Second, the degree of hegemonic influence at the World Bank was not simply a direct reflection of the US relative financial contribution, but was also more profoundly determined by two underlying forces:

<sup>30</sup> Pfeffer (1978).



(a) the structural dependence of other IDA donors upon the hegemon, and (b) the legitimacy of the hegemon's power exercise perceived by other IDA donors. As other donors were more structurally dependent upon the hegemon for military protection against the Soviet Union and market access for economic recovery, so they had to tolerate a preponderant US influence at the World Bank even when the US financial contribution was flagging. Yet, as the hegemon skewed the contribution-to-influence disparity to the tipping point by consistently amplifying its undue influence while cutting its share of financial contributions, other donors opted to challenge the legitimacy of US power by refusing to embrace the hegemon's policy initiatives.

In a nutshell, the hegemon's contribution-to-influence nexus is far from a linear relationship, but is, rather, subject to a threshold effect. The hegemon can enjoy predominant influence incommensurate with its contribution for a sustained period of time at the World Bank if other donors are highly structurally dependent upon the hegemon in the broader international system. Yet, as other donors alleviated their structural dependence upon the hegemon, thus lowering their tolerance threshold of the US contribution-to-influence disparity, the hegemon could suffer from an imminent loss of influence in the wake of illegitimate US power exercises at the World Bank even when its share cuts were very mild.

In this book we will look into IDA replenishment history to grasp the core driving forces behind changes in burden shares and donor influence at the World Bank. Below are the essential questions and lines of inquiry.

#### *1.4.1 Why Did Cuts in the US Burden Share Sometimes Lag Far Behind Decline in Its Relative Economic Capabilities?*

Imminent geopolitical threats could temporarily arrest US share reduction in IDA when the waning hegemon aspired to deploy IDA to preserve its hegemonic status. The US-centred Western international system was once embedded in a confrontational bipolar world order with developing countries on the margins. At times the communist East and the united South could pose serious threats to the US hegemonic status. When the perceived external threats were looming large, the US deployed the World Bank-IDA as a crucial geopolitical instrument for containing the external threats. The US overarching objective was

to expand total IDA resources in order to counter the threats emerging outside the Western hemisphere. By doing so, the United States could either win a competitive edge in aid-giving contests with the Soviet Union in peripheral states, or accommodate the Third World's demand for development assistance so as to dissuade developing countries from demanding a radical overhaul of the US-centred international economic order. In order to foster the internal Western solidarity to augment total IDA resources, the hegemon was willing to stand by its traditional shares so as to encourage its Western allies to give as much aid as possible. Thus, in the face of imminent threats from the East in the late 1960s and the South in the mid-1970s, the hegemon was willing to maintain its traditional burden shares despite its relative economic decline. By contrast, as external threats faded away, the hegemon vigorously sought substantial share cuts, even when its Western allies were not willing to offset its shortfall.

In sum, to counter impending geopolitical threats from the East and the South, the United States was willing to maintain its traditional burden share in spite of its relative economic decline.

#### *1.4.2 Why Did a Significant Lag Exist for a Sustained Period of Time between Reductions in the US Burden Share and Deterioration in the Hegemonic Influence in the World Bank?*

An intriguing counterintuitive phenomenon in IDA replenishment history is that the hegemonic influence endured and even amplified despite its diminishing financial contribution. The most striking change in IDA burden-sharing patterns is a precipitous fall in the US share from an unassailable position of over 40 per cent in 1960 to a modest 11 per cent in 2010. But throughout the first four decades of IDA history (from 1960 to 2000), the US policy influence at the World Bank hardly diminished at all. This runs contrary to the conventional wisdom that donors would lose their political influence as they cut their financial contribution to IOs.

There are two main reasons why the decline in the hegemonic influence lagged far behind the cut in its financial contribution.

A primary reason why other donors not only compensated for the US share cuts but also ceded influence to the United States was that they were so structurally dependent upon the hegemon for military