1 Introduction

Tectonic shifts in the global economy have come to dominate today's public discussions on international politics.[1] The two largest changes are the rise of the large emerging economies, often narrowly defined as the BRICs (Brazil, Russia, India, and China), and, thanks in part to this rise, the potential loss of US hegemony. Indeed, at the time of the writing of this book, due to the rapid economic ascent of the emerging market economies, as well as US military (mis)adventures in Iraq and Afghanistan, both scholarly and public deliberations have increasingly turned away from the discussion of "US unipolarity" to assessing whether the multilateral order the US actors and their allies crafted at the end of World War II is resistant and flexible enough to survive the rising states.[2] At the end of the Cold War, scholars were racing to find the right phrase to mark the unprecedented world where the USA would stand alone as a superpower ("the end of history" versus the "clash of civilizations," for instance).[3]

Today scholarly and public discussions are instead trying to understand the implications of the rise of the BRICs and other emerging economies for the multilateral order, including its institutions such as the International Monetary Fund (IMF) and the World Bank. Since their inception near the end of the war, a handful of rich countries led by the USA have dominated these multilateral economic institutions. Although this asymmetric control over the institutions has long been controversial, it has become even more contentious as large emerging markets have increased their importance for global trade and financial flows over the past several decades, while the governance of the institutions has remained largely static, with the exception of some changes in

[1] For recent scholarly works on this topic, see, e.g., Beeson (2009); Hurrell (2008); Kahler (2013); Layne (2009 and 2012); MacDonald and Parent (2011); Schweller and Pu (2011).

[2] See, for instance, Brooks and Wohlforth (2009); Chin (2010); Ikenberry (2008); Ikenberry and Wright (2008); Mearsheimer (2001).

[3] Fukuyama (1992) ("the end of history"); Huntington (1993) ("the clash of civilizations").

2008–2010. In this context, questions about whether there is a "crisis" in the US-crafted multilateral order and whether this multilateral system will be able to continue to integrate the rising states, as opposed to being challenged by them, infuse public and scholarly discussions.[4] These discussions have only intensified with the 2008 global financial and economic crisis since this crisis emanated, unlike earlier crises of the late twentieth century, not from the developing world, but from the most advanced financial system in the world – the USA.

Underlying these various considerations is a question about the relationship between economic power and political power. Ultimately, questions about China's economic rise, for instance, hinge upon the extent to which China translates such economic power into political influence in the international order. Similarly, debates about the US-led multilateral political-economic order need to ultimately address the question of how the rising powers' economic prowess will affect governance through multilateral institutions. Undoubtedly, this is a multifaceted topic that scholars have approached from different angles, exploring for instance whether China is a "revisionist" state, whether the USA retains the legitimacy to revamp the existing multilateral economic institutions, or the extent to which the rising states would like to reform prevalent institutional rules. Yet, less has been said about the fundamental issue that forms the common thread in these various discussions: the association between economic power and states' political power in multilateral institutions.

This book examines this crucial issue by asking the following question: What is the relationship between states' economic power and their formal political power in multilateral economic institutions? This question raises others: Why do we see the same states possess different levels of formal political power in different multilateral economic institutions of the same era? For instance, when the USA and its allies created the IMF and the World Bank, they endowed these institutions with weighted voting, namely asymmetric representation of the member states, but they created the world trade organization of the time, the International Trade Organization (ITO), with equal voting. What explains this variation in members' formal political power across different institutions? Further, the IMF and the World Bank underwent shifts in members' formal political power in 2008–2010.[5] Contemporary accounts of these shifts have been lumped together and riddled with normative assessments (for

[4] Birdsall and Fukuyama (2011); Kahler (2013); Odell (2009); Voeten (2004).

[5] Voting in both institutions consists of two components – basic votes, which are distributed to member states equally, and quota (IMF) or subscription (World Bank) votes, which indicate the member's shares in the organization, which are in turn calculated by the

instance, while some considered the rising states to have increased their formal significance in the institution significantly, others have dismissed the changes as tangential). Yet, as this book shows, the 2008–2010 changes in these institutions enhanced the representation of the economically rising states at differing degrees: states, such as Brazil, China, and India, were able to translate their increasing economic power into greater formal political power relatively more in the IMF, but they were not as successful in the World Bank. Again, what explains the differences across the two institutions?[6]

Although the discipline of International Relations has long wrestled with the association between states' economic power and their political power within multilateral institutions, it still does not provide clear answers to these questions.[7] On one hand, power-based accounts of various kinds suggest that multilateral institutions will reflect the shifts in the underlying distribution of economic power, particularly the rise of certain states (e.g., Brooks and Wohlforth 2009; Gilpin 1981; Kirshner 2010; Layne 2012, p. 211; Schweller and Priess 1997). Robert Gilpin in his influential 1981 book *War and Change* has now famously argued that as the distribution of power changes, the rising states will fashion the international system, including its institutions, in accordance with their interests. Recent power-based perspectives not just rearticulate the notion that economic power and political power in institutions go hand in hand, but they also marvel at the gap between the two, namely while the distribution of economic power in the world has changed, the global institutions have not caught up with this change. Here, Brooks and Wohlforth (2009, p. 49) put it succinctly: "no one sitting down to design the perfect global framework for the twenty-first century would come up with anything like the current one . . . The existing architecture is a relic of preoccupations and power relationships of the middle of the last century." The authors emphasize that when these institutions were created at

member's relative economic weight and other economic variables. The latter component is more important in determining a member state's total voting power.

6 Throughout the book, I use the G20 as a reference point for the large advanced economies that are on a relative basis economically declining, but nonetheless remain institutionally dominant ("the declining states") and the large emerging markets, which are the economically rising states ("rising states"). The book examines three different categories of states in discussing the low-income countries: (1) The Sub-Saharan African states (minus South Africa); (2) the UN classification of Least Developed Countries (LDCs); (3) the World Bank's classification of low-income countries.

7 As Simmons and Martin (2002, p. 194) define, institutions denote implicit or explicit and effective or ineffective rules governing international behavior. The usage of the term institution here, as elsewhere in the discipline of International Relations, is broad and includes both formal and informal institutions (Koremenos et al. 2001a, 2001b; Simmons and Martin 2002).

the end of the war, they manifested the then distribution of power and because that distribution has changed today, these institutions are out of synch with the times. Overall, power-based perspectives suggest institutions (should) reflect the asymmetries in inter-state power.[8]

Yet, other perspectives disagree with this predominantly power-based analysis of the relationship between states' economic power and their formal political power in institutions. Randall Stone (2011, p. 18) emphasizes that weak states tend to receive "a share of formal power that is out of proportion to their resources" in multilateral economic institutions, so as to encourage their participation in these rules-based frameworks that the powerful states otherwise dominate. Stone's argument, thus, suggests that the relatively weak (judged by relative economic standing) will possess more formal political power in institutions than we might expect them to do just based on their importance to the global economy. In a different theoretical and empirical context, John Ikenberry (2000) makes a similar argument. He explains that in order to establish long-lasting institutional arrangements, just as the USA prudently did at the end of the war, powerful states signal "restraint" within multilateral institutions. Restraint means the dominant states do not grab all the political power they can, but rather agree to terms in institutions that do not necessarily mirror their economic and military resources. Both Stone and Ikenberry suggest that the distribution of inter-state economic power would not be reflected in institutions as asymmetries in members' formal political power; rather, the leading states would voluntarily tame these asymmetries (for different reasons).

These influential perspectives offer opposing processes, but the same outcome for how the distribution of formal political power in institutions will change when some states increase their economic (and military) power.[9] From the relatively more power-based approach, because institutions risk being relegated to the dustbin of history if they fail to update themselves with the changing distribution of power, the American actors should realize the unpalatable future for the existing multilateral

[8] Here and elsewhere, I do not use the term asymmetry in a normatively loaded manner – I do not suggest symmetry is desirable, nor asymmetry is undesirable. Rather, it simply provides another way for me to refer to a distribution of power, where some states have more than others.

[9] Economic power denotes economic resources, which can be assessed with reliance on widely accepted indicators, including the size of a state's economy, its record of economic growth, its participation in international trade relations (through imports and exports), and its participation in financial transactions (either as a recipient of investment or a source of it). The early debates between realists and liberals (e.g., Keohane and Nye 1977) regarding the importance of military versus economic power have lost prominence over time, as important realist approaches have focused solely on economic power (e.g., Drezner 2007; Grieco 1990; Krasner 1985; Viner 1948).

institutions (that they have created and dominated) and update them to reflect the changed and changing inter-state power relations. From the more institutionalist perspective, the US actors might realize that the continuation of these institutions, and their acceptability to a range of shareholders and stakeholders, demands the recognition of others' power and the continued signaling of "restraint." Once again, the outcome would be the Americans and their allies agree to enhance the formal political power of the rising states within the institutions.

From an even more intensely institutionalist perspective, one that sees multilateral institutions as solutions to collective action problems, through the provision of better information and hence the strengthening of monitoring and enforcement, how the distribution of economic power relates to the institutional setting remains unclear. As Robert Keohane's (1984) seminal work has argued, and the work following it has suggested, institutions are there to sustain cooperation "after hegemony," or at the very least despite the vagaries in the hegemon's influence. Based on this kind of an institutionalist perspective, institutions isolate the effects of power and create stable sites for interaction.[10] Yet, such an approach does not tell us enough about how institutions fare when the distribution of power shifts.

This book contends that existing approaches leave out key aspects of the relationship between economic power and formal political power in multilateral economic institutions. Importantly, while existing works focus on either power or institutions as distinct realms, we must examine their intersection as well.[11]

As the preceding synopsis of the literature reveals, there are three crucial (inter-related though distinct) issues that the existing perspectives overlook. First, the prevailing literatures do not focus adequately on the differences across institutions (of the same period) as to how the distribution of economic power manifests itself in the institutions. Going back to my earlier point, why did the institutional settings of the IMF and the World Bank, even though they are the twin international financial institutions in the literature, address the rise of large emerging economies differently in the 2008–2010 changes to members' formal political power? This variation is key to understanding how the rising states affect the multilateral order. It is also crucial to unpacking exactly how institutional settings interfere with power dynamics because without explaining how the distribution of power manifests itself differently across different

[10] Lake (1993, p. 465) notes that Keohane "goes further to suggest that states may be able to construct regimes to facilitate cooperation even in the absence of a single leader."
[11] While Stone (2011) is an exception here, his work focuses on "informal governance."

multilateral institutions, one cannot begin to tell a story regarding the importance of institutions in impacting power dynamics.

Second, based on the literature it is puzzling as to why there is a "lag" between the changes in the distribution of economic power and the distribution of political power in multilateral economic institutions (e.g., the Brooks and Wohlforth quote above). While power-based perspectives identify this lag as an important feature to study, they do not analyze either how the lag comes into existence or how it is overcome (e.g., Schweller and Priess 1997). By the same token, from an institutionalist perspective, the issue is similarly unclear, even though the institutionalist literature points to the presence of a discrepancy between institutions and power dynamics as a source for crisis in the system (e.g., Ikenberry 2012). If the preeminent economic power showed "restraint," as these accounts suggest, it is unclear as to why when that state is in relative decline, namely there are other rising states in the system, there would necessarily be a significant lag between the institutions and the distribution of power. Regardless, neither perspective focuses on analyzing the factors that contribute to the outcome of institutions outliving power dynamics.

Third, even the institutionalist literature does not tell us how exactly institutions matter to power dynamics (e.g., Krasner 1991).[12] It seems basic to say that institutions affect power dynamics, but once one starts digging into the question of how institutions moderate the inter-state distribution of power, one gets stuck in important but well-rehearsed answers. For instance, we know that states can set aside concerns for short-term gains and cooperate under the shadow of the future that institutions create. In this sense, we know that power does not blind state actors to creating a rules-based order that will serve their long-term interest. However, the institutionalist literature does not tell us how exactly institutions moderate or mediate inter-state power asymmetries. While part of this literature refers to asymmetries among states as an important factor to examine in multilateral institutions, it does not provide systematic and clear answers to the question of how the inter-state distribution of power relates to members' formal political power in institutions (e.g., Koremenos et al. 2001a, 2001b). Overall, prevalent literatures that focus on institutions and power treat these phenomena as separate realms, but leave their intersection under-analyzed.

This book not only borrows from, but also expands upon, these existing perspectives as well as others to show that the institutional setting

[12] Krasner, though, shows the opposite: how power might matter to institutional dynamics, not the other way around.

determines the significance of the underlying distribution of economic power. Institutions sometimes provide a relatively strong manifestation of the inter-state distribution of economic power, while at other times they mitigate that distribution. Taking the rise of China as an example, some institutional settings will be relatively more responsive to China's increasing importance in the global economy, while other institutional settings will be more immune to this shift in the inter-state distribution of economic power. Just as a dial on a sound system would adjust the volume, the institution adjusts the importance of inter-state asymmetries in economic power. The institution affects both how and how fast the shifts in the distribution of economic power manifest themselves as changes in member states' formal political power. For the remainder of the book, as shorthand, I refer to the book's analytical framework as the adjusted power approach.[13]

The book argues that institutional settings adjust power in three primary ways. First, the institutionally dominant states' core interpretation of the purposes and functions of multilateral institutions impacts their preferences toward the distribution of formal political power within these institutions.[14] Different states might have different interpretations of which (public) goods the institutions should provide, or they might have different priorities regarding the provision of various goods that the institution intends to supply. For instance, should the World Bank serve the poorest states only, or should it continue to serve the middle-income countries also? In turn, these interpretations influence states' attitudes toward the distribution of political power within institutions. Further, conflicts between different states' conceptualizations of institutional priorities can shape institutional outcomes, including the distribution of members' formal political power.[15]

Second, how members fund an institution, particularly the degree and the nature of state funding, affects the importance of the underlying inter-state distribution of economic power for the institutional context. For instance, the World Bank's non-concessional lending arm – the International Bank for Reconstruction and Development (IBRD) – raises money on international capital markets through its issuance of triple-A

[13] I do not argue this distribution of power can be precisely determined, but its general contours – where different states roughly sit in the hierarchy of economic importance – can be ascertained.

[14] The answer to which states are formally the dominant states within institutions is historically contingent. In the 2008–2010 period, there is little dispute the G5, or the G7 states, stand as the institutionally dominant states, with the USA as the leading state (e.g., Copelovitch 2010).

[15] These points do not suggest there are infinite possibilities in the way in which a state might interpret the key purposes of an institution.

rated bonds.[16] In contrast, the IMF does not have the ability to raise funds in a similar manner. How does this difference across the two institutions play into members' calculations about financial burden sharing? And, how does burden sharing relate to the relationship between the inter-state distribution of economic power and the distribution of formal political power in multilateral economic institutions? For instance, the nature of the institution's funding might create an "institutional logic" for asymmetries in formal political power.

Third, institutions mediate the importance of the inter-state distribution of economic power through institutional rules and conventions. Simply, institutional conventions denote well-established procedures and specific interpretations of rules for certain actions. Among the many conventions a single institution may embody, of interest here are those that concern formal political power, including the procedures for altering it. Reasonably, these existing rules and conventions determine the parameters, if not the content, of how members alter formal political power in the institution. Particularly, such rules may, more often than not, be a source for "incremental change" as opposed to more big-bang alterations (e.g., Pierson 2004; Thelen and Mahoney 2010).

Given that the literature currently lacks an integrative theory/approach to the inter-relationship between distribution of economic power and political power within multilateral institutions, the book aims to begin filling this gap. As the preceding discussions make clear, variation across institutions as to how power asymmetries manifest themselves is central to the adjusted power approach. For instance, all else being equal, in some institutional settings, the institutionally dominant states that are in relative economic decline will be more willing to enhance the position of the rising states, while in other settings they might be more reluctant. This point also helps explain the "lag" between the changes in the distribution of economic power and shifts in members' formal political power in multilateral economic institutions. While the argument that "institutions adjust power" may *prima facie* seem obvious, existing works, including the influential ones discussed above, have said less about the intersection of power and institutions and more about power *or* institutions as separate realms.

The book ultimately connects distinct literatures within International Relations. Analyses about the examination of multilateral economic institutions and the relative rise and decline of certain states generally remain separate within the discipline, though these matters are related. In recent years, scholars have produced theoretically diverse work on

[16] Non-concessional means the loans are at market interest rates.

multilateral economic institutions, with a particular focus on the World Bank and the IMF.[17] The design, the structure, as well as the inner-workings of institutions constitute the core of this literature. These works, by and large, remain analytically separate from another prolific line of research and thinking within International Relations that focuses on the rise and decline of influential states. This line of research, essentially, examines whether existing multilateral frameworks can accommodate the rising states, and the extent to which these states seek accommodation within it as opposed to challenging it. For instance, John Ikenberry (2008) have argued that the current multilateral political-economic system remains historically unique in the extent and the quality of its institutional formation with numerous "points of access" for the rising states; therefore, arguing for the peaceful rise of China. Others, such as Iain Johnston (2008), have shown that China can be socialized into international institutions, suggesting thereby that such socialization will likely lessen the chances for system-wide change. Yet, other approaches argue for the reform of multilateral institutions to perpetuate the projection of US power globally (e.g., Brooks and Wohlforth 2009; Ikenberry and Wright 2008). While this literature on rising states provides a macro-picture of the multilateral economic institutional context, it does not engage extensively with the detailed workings of multilateral economic institutions (and the corresponding literature).[18] Ultimately any understanding of the peaceful (or not) rise of economic powers, as well as their behavior within a specific institutional context, demands an analysis that combines the two literatures.

The book's focus on formal political power constitutes a critical dimension in the analysis of both multilateral economic institutions and how the rising states will impact these institutions. Formal political power, here, denotes a state's voice within an institution, as expressed by the rules and procedures of that institution. Two main components comprise formal political power – states' voting rights in the institution and states' representation in the constituent organs of the institution.[19] Formal political power helps explain "control" within an institution, and control remains one of the most fundamental aspects of understanding the design and function of institutions (e.g., Koremenos et al. 2001a, 2001b). Formal

[17] For instance, see Chwieroth (2010); Copelovitch (2010); Moschella (2010); Stone (2011); Weaver (2008); Woods (2006).
[18] Johnston's book, in terms of its focus on specific institutions, is an exception here, but his examples are drawn from the security realm.
[19] Formal political power exists in both relatively formal and informal institutions. Formal institutions rely more extensively on written documents and domestic ratification procedures than informal institutions, which rely less on codification (Lipson 1991; Chapter 7).

political power thus illustrates the "outer structural constraint" within which the institution work (Woods 2006, p. 4).[20]

Member states pay close attention to their formal political power within institutions. For instance, as one expert notes regarding the IMF, states have "a keen awareness that any change in the quota structure [which determines voting power] might affect their proportionate influence over the Fund's decision-taking and their ranking vis-à-vis other members" (Lister 1984, p. 76; see also Woods 2000). In the 1990s, Japan's efforts to enhance its position to the second largest shareholder in the IMF was marked by both Japanese insistence on this ranking and the British and French sensitivity to being surpassed by Japan (Rapkin et al. 1997). Due to a similar concern for rankings, since 1990, the UK and France have requested to tie their voting power in the IMF.[21] Formal political power is, similarly, sensitive in the World Bank. In fact, during changes to shareholding (thus voting power) the Bank permits members to exercise their "preemptive right." In cases where only a certain group of members stand to benefit from gains to their shares, the non-beneficiary members can preemptively increase their own shares so as to preserve their ranking in the institution.

Formal political power also tends to be a source of "prestige among peers" or even national pride, which again explains member states' close scrutiny of it (Boughton 2001, p. 857; see also Chapter 4).[22] For instance, in the 1980s, China's request to increase its capital subscription in the World Bank intended to bring its position, particularly voting power, in the institution "to a size which would be representative of China's position among nations" (IMF 1987, p. 11). Further emphasizing the importance of formal position in the institution from a ranking and prestige perspective, twenty-one members of the institution exercised their preemptive rights for the sake of the maintenance of their relative position in response to China's request.

Given the various ways in which formal political power matters, domestic ratification agencies that appropriate the funds to multilateral institutions, such as the US Congress, tend to closely scrutinize members' institutional standing (Lavelle 2011; Chapters 4, 5). For instance, a US Senate Committee report that analyzed the multilateral financial institutions from 2003 to 2010 puts it simply: "U.S. voting shares

[20] While it may not be sufficient to analyze formal political power, it is necessary.
[21] Officially, since the Ninth General Review (1990), they have requested to have the same quota in the institution, which means they hold the same voting power.
[22] For a general discussion of states' concerns with their relative positions in international institutions due to concerns about prestige, among other aims, see Lake (2013); Ikenberry and Wright (2008).