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Introduction

In June 1926, Brazil and Spain announced that they would withdraw from the League of Nations. At issue was the League's proposal to grant Germany a permanent seat on the League's Council, while denying similar status for other aspiring countries. Spain still fancied itself a Great Power, despite losing the vast majority of its colonial possessions in the nineteenth century. Brazil was the preeminent state in Latin America, and it asserted that the Council was unbalanced:

> It must be recognized how odious becomes the exclusion of America from representation by one of its States, in the permanent framework of the Council, in view of the fact that the privilege of such a representation is accorded to the other continents.[1]

The permanent members of the League Council rejected these demands, but a compromise was proposed: "semi-permanent" seats, which would give states like Brazil and Spain the opportunity to remain on the Council indefinitely, contingent on election by the Assembly. Both countries found this compromise unacceptable. Spain eventually rescinded its decision to withdraw, but Brazil left and never returned to the League.

In 1984, the United States threatened to withdraw from the United Nations Educational, Scientific and Cultural Organization (UNESCO). US representatives criticized UNESCO programs and personnel as answering "to an agenda that is often inimical to US interests" and adopting a policy stance that "too frequently coincides with that of the Soviet Union."[2] UNESCO operated under one-country-one-vote rules,

[1] Edwards 1929, 144. [2] US Department of State 1984, 3.

and the United States was frequently outvoted by countries sympathetic to the Eastern Bloc. The US government found it unacceptable that it was obligated to contribute the largest share of the budget to an organization that so poorly reflected its own interests:

> The representative principle of one nation one vote is not inappropriate to UNESCO. But it should be understood that the UNESCO decision-making system can ... establish cumulative trends antithetical to the position of the geographic group that contributes to an overwhelmingly large part of the budget.[3]

The United States proposed several reforms that would increase its voice in the organization, most importantly modifications to the decision rules to require support from major financial contributors to the agency. When these demands were denied, the United States formally withdrew from the organization. Gregory J. Newell, assistant secretary of state for international organization affairs, asserted that the threat of US withdrawal would put pressure on the organization and speed up the pace of reform.[4] However, serious reform only came in 1999 with the appointment of Koichiro Matsuura as Director General, and the United States would remain absent from the organization for nearly twenty years.

In the early 1980s, Japanese policymakers initiated a campaign for greater representation and voice in the Bretton Woods institutions: the International Monetary Fund (IMF) and the World Bank. Japanese representatives declared that the status quo failed to reflect their country's emergence as the second largest economy in the world.[5] Japan pushed for voting rights commensurate with the size of its economy, greater representation of its nationals as employees, and ideological recognition for its developmental principles. Japanese officials adopted an aggressive bargaining strategy, threatening to withhold financial contributions if its goals were not met. As I will show in Chapter 4, Japanese objectives were achieved much more rapidly in the World Bank than in the IMF.

These anecdotes illustrate the basic dynamic that lies at the heart of this book. Policymakers frequently create institutions to facilitate and manage

[3] The Honorable Gregory Newell, letter to Mr. A. M'Bow. Presented by US Permanent Representative, Jean Gerard, July 13, 1984, 2.

[4] David R. Francis, "UNESCO Faces up to US Pullout, Shrinking Budget," *Christian Science Monitor*, December 17, 1984 .

[5] For example, Statement by Haruo Mayekawa (Alternative Governor of the Fund and the Bank of Japan), *Summary Proceedings of the IMF-World Bank Annual Meetings*, 1981, 59; Statement by Michio Watanabe (Governor of the Fund and the Bank of Japan), *Summary Proceedings of the IMF-World Bank Annual Meetings*, 1982, 59.

international cooperation. However, member countries often grow dissatisfied with their representation or influence over such arrangements. The source of dissatisfaction varies: domination by a single country can breed resentment; wealthy states may perceive that their influence is not commensurate to their financial contributions; rapidly rising states may feel that existing arrangements do not sufficiently reflect their newfound power.

Some institutions change swiftly to accommodate dissatisfied participants. Others decline or collapse as members exit. Yet some others resist change, but nonetheless remain robust. Why? What are the implications of this variation in institutional change for our understanding of international relations and the nature of political institutions? Will newly rising states – such as Brazil, China, and India – encounter accommodation or resistance as they seek to establish themselves in positions of influence in the contemporary world order? These are the puzzles this book seeks to answer.

This book proposes and evaluates a novel theory of institutional change in international relations, drawing insights from the economics literature on industrial organization. The core insight is that political institutions are affected by the underlying characteristics of their policy areas, much like firms are affected by markets. However, there is a crucial difference in how competition affects firms and institutions: whereas competition among firms primarily affects pricing and quality incentives, competition among international institutions affects the context of interstate bargaining among members, shaping the trajectory of institutional change.

I will argue that policy areas vary in their propensity for competition, both among institutions and from bilateral, unilateral, and private sources. For example, while development aid can be distributed effectively by many types of donors – private, public, small, large, unilateral, multilateral – there are compelling reasons to concentrate functions in a single, universalistic institution for managing international financial crises – the need for global surveillance and coverage over financial institutions, sufficient availability of funding on short notice, and political cover for imposing controversial conditions on countries in crisis. In turn, institutional members are confronted with very different bargaining contexts across policy areas. In institutions situated in competitive policy areas, outside options are attractive: dissatisfied members have plenty of alternative mechanisms through which to pursue their objectives. Hence, dissatisfied members can credibly threaten exit from an institution if their demands are not met. In contrast, in policy areas where outside options are unavailable or unattractive, such leverage cannot be brought to bear. Hence, competition disciplines institutions: competitive institutions must adjust frequently and flexibly or risk irrelevance as members move on to more satisfactory arrangements. Rigidity in the face of widespread dissatisfaction, or path dependence, is sustainable only for institutions that are able to limit competition and hence the attractiveness of outside options. As this book will illustrate, this theory provides a powerful explanation for institutional change across a wide range of policy issues, such as international finance, collective security, and internet governance.

WHY COUNTRIES BARGAIN OVER INTERNATIONAL INSTITUTIONS

Why should we care about institutional change in international relations, and how it varies across policy areas? What motivates countries to pursue institutional change? One important reason why policymakers across the globe care about their status in international institutions is prestige.[6] A permanent seat on the UN Security Council is widely seen as an indicator of contemporary great power status. Recognition as a great power was a major foreign policy objective for many countries, such as Germany, Japan, and Russia, prior to World War II, and it remains an important issue for aspiring countries today. Similarly, voting shares in major economic institutions are often seen as indicative of a country's standing in the world economy.[7] Countries often celebrate the placement of their citizens as leaders in international organizations as a mark of recognition and national achievement.[8]

[6] For the role of prestige and status in international relations, see Dore 1975; Gilpin 1981; Kang 2003; Lebow 2008; Paul, Larson, and Wohlforth 2014.

[7] A *New York Times* article published on the verge of the establishment of the IMF noted that: "Much more important than the precise amount of foreign exchange which becomes available to member nations under the quotas to be agreed upon in connection with the international monetary fund is the matter of national prestige in the ranking of one country against another in the new scale of relative national economic importance being fashioned here." (John H. Crider, "Fund Quotas Show Race for Prestige," *The New York Times*, July 10, 1944.)

[8] For example, the presidential office of South Korea commented that Ban Ki-moon's appointment as Secretary General of the United Nations "is a significant and proud occasion that constitutes a testimony to the heightened status of (South) Korea in the world." ("Asia Heralds Pick of South Korea's Ban as U.N. Secretary-General," *Asia Post*, October 14, 2006). In 1999, the Thai candidacy of Supachai Panitchpakdi for Director General of the WTO was described as a "matter of national prestige," and Thai Deputy

However, bargaining over international institutions is not only a matter of status or prestige. As I will illustrate in subsequent chapters, influence over international institutions brings important, tangible benefits. A large body of recent scholarship shows that countries such as the United States often exercise asymmetrical, informal influence over the operation of major international institutions, biasing policy outcomes in their favor.[9] For example, US influence over the IMF means greater support for US allies during economic crises and less risk for US economic interests abroad. Japanese diplomats note that Japan's lack of permanent representation on the UN Security Council has proven costly on several occasions, depriving them of access to internal deliberations and the ability to shape the agenda on resolutions such as those vis-à-vis North Korea.[10] Lack of employee representation diminishes the ability of member states to make use of informal networks to acquire information and shape the policy output of an organization. Factors such as the location of an institution's headquarters can also affect the ideological leanings of an international organization and consequent policymaking. In the 1990s, the economic orthodoxy espousing sound macro and liberal market policies as a prerequisite to economic growth acquired the location-specific appellation: "The Washington Consensus," reflecting the headquarter locations of the US Treasury and the Bretton Woods institutions.

Contestation over international institutions has grown increasingly salient since the end of World War II, as the United States and its allies established and expanded an international architecture centered around international institutions such as the United Nations, Bretton Woods Institutions, and General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO).[11] International institutions have proliferated and expanded dramatically over the past seven decades, and they now routinely occupy central functions across a wide range of issues areas that were traditionally managed through unilateral or bilateral means. It is no surprise that rising powers such as Germany and Japan, and more recently China and India, have placed high priority on securing greater

Foreign Minister Suhumbhand noted that "Thai public sentiment towards [the US] could be severely damaged if Washington snubbed Supachai." ("Thai Pride at Stake in Race for Job," *AFP*, March 30, 1999).

9 See among others, Thacker 1999; Broz and Hawes 2006; Fleck and Kilby 2006; Stone 2011; Lim and Vreeland 2013.

10 Personal Interview, Japanese Representative to the United Nations, 2005.

11 See, among others, Krasner 1983; Keohane 1984; Ikenberry 2000.

influence in the international institutional architecture, either by seeking reforms or proposing new institutions more favorably disposed to their interests. I will return to this topic in the concluding chapter, where I discuss the broader implications of this book.

Contemporary foreign policymakers clearly place immense importance in securing adequate representation and voice in international institutions. British MEP Charles Tannock explained the value of a UN Security Council seat as follows:

> It's essential, as a defining characteristic of a nation's foreign policy, to have the ability to speak, when they want to, in their national interest. And clearly, the seat in the UN is one of the most important things that we can have as a nuclear power, as a founding member of the Security Council.[12]

Indian Prime Minister Manmohan Singh, campaigning to obtain a permanent seat for his own country, criticized the Security Council for a "democratic deficit," and remarked that:

> Until the UN becomes more representative of the contemporary world and more relevant to our concerns and aspirations, its ability to deliver on . . . its own charter obligations will remain limited[13]

Bank of Japan Governor Toshihiko Fukui expressed similar sentiments about the distribution of quotas in the IMF, which determine voting shares, by noting that "It is important to recognize that the current distribution of IMF quotas represents another form of unsustainable global imbalance."[14] Malaysian Foreign Ministry representative Tan Seng Sung noted that "Reforms are therefore needed to the decision-making structures and processes in the [international financial institutions]. This will balance the current leanings towards free market principles against issues facing emerging markets, taking into cognizance the need to accommodate the different interests and circumstances of individual countries that are at different stages of development."[15]

Similarly, commenting on perceived US domination of the Internet Corporation for Assigned Names and Numbers (ICANN), the organization that manages the assignment of internet domain names, UN

[12] "EU to ask for UN Security Council Seat," *RT*, May 5, 2011.
[13] "India, South Africa Demand UN Reform," *BBC News*, September 9, 2005.
[14] "Statement by the Honorable Toshihiko Fukui Governor of the Bank of Japan and Alternate Governor of the IMF for Japan at Twelfth Meeting of the International Monetary and Financial Committee Washington, D.C.," September 24, 2005.
[15] Martin Khor, "Reform the IMF Quota and Decision-making System," *Third World Network*, August 3, 2000.

Secretary General Kofi Anan asserted that, "developing countries find it difficult to follow all these processes and feel left out of Internet governance structures . . . For historical reasons, the United States has the ultimate authority over some of the Internet's core resources. It is an authority that many say should be shared with the international community."[16] The empirical chapters of this book contain numerous examples that illustrate the same point. Asymmetrical representation and influence over international institutions is not only a compelling topic for academic reasons: it is a top priority for policymakers across the globe.

INSTITUTIONAL CHANGE IN INTERNATIONAL RELATIONS

How do institutions change in response to international bargaining? Scholars have long recognized the tendency for institutions to "lock in" initial conditions, even after considerable shifts in underlying realities.[17] This tendency has also been observed in international institutions, particularly in reference to the extension of the stabilizing effects of hegemony beyond the apex of a dominant state's power.[18] Such institutional rigidity, or path dependence, can be helpful for maintaining continuity and stability in the international system. However, it can also produce glaring discrepancies between a state's perception of its place in the international order and its ability to obtain preferred outcomes.

Historically, a particularly contentious form of institutional rigidity has concerned distributional outcomes – the distribution of national representation and influence among member states in an international institution. Rapidly growing states have often expressed frustration at what they see as the excruciatingly slow pace of change in institutional features such as voting shares and other forms of formal representation, composition of personnel, and influence and agenda-setting power. This has been a central issue for high-growth states that were poorly represented at the initial bargaining phase of major post–World War II international organizations. Among these states are Japan, Germany, and Italy, the Axis Powers of World War II, as well as many developing states that were either dependencies or too weak to play a major role in the

[16] Kofi Annan, "The U.N. Isn't a Threat to the Net," *The New York Times*, November 5, 2005.
[17] David 1985; Goldstone 1988; Arthur 1994; Pierson 2000.
[18] Krasner 1976; Keohane 1984; Ikenberry 2001.

initial bargaining process. While such states have increased their relative geopolitical and economic weight in the international system, recognition of their newfound status in international organizations has not been automatic.

Easily quantifiable measures point to a striking lack of change in distributional attributes of some of the most prominent international organizations. The most conspicuous of these is what can be described as the World War II effect, the tendency for contemporary institutions to reflect the outcome of a war fought over seventy years ago. The five permanent members of the UN Security Council – China, France, Russia, the United Kingdom, and the United States – incorporated the principal Allied Powers of World War II, and membership has remained static since inception despite considerable shifts in underlying geopolitical conditions. While it is difficult to construct a single measure that captures the geopolitical weight of a state in the international system, a strong case can be made for accepting new members. According to one widely cited measure, the Composite Index of National Capability collected by the Correlates of War project,[19] Japan has outranked France and the United Kingdom since roughly the 1970s and has been about on par with Russia since the collapse of the Soviet Union. A similar argument could be made for the inclusion of Germany and India, two countries that have also been active participants in UN peacekeeping operations. In terms of overall contributions to the regular budget of the UN, as of 2010, Japan and Germany were the second and third largest contributors, together accounting for about 20 percent of the total budget, far outstripping the contributions of permanent members China (3.2 percent) and Russia (1.6 percent).[20] Nonetheless, reforming the Security Council has proved difficult despite repeated attempts.

The voting shares of the IMF have also exhibited a tendency to overrepresent inception members and underrepresent members who joined later.[21] Figure 1.1 separates G7 states into Allied and Axis powers according to their affiliation during World War II and plots shares of IMF voting power as a proportion of shares of world gross domestic product (GDP) – the most straightforward measure of a country's weight

[19] Singer, Bremer, and Stuckey 1972 (v. 3.02).
[20] Secretariat of the United Nations, "Status of Contributions as at 31 December 2010," ST/ADM/SER.B/828.
[21] Rapkin, Elston, and Strand 1997.

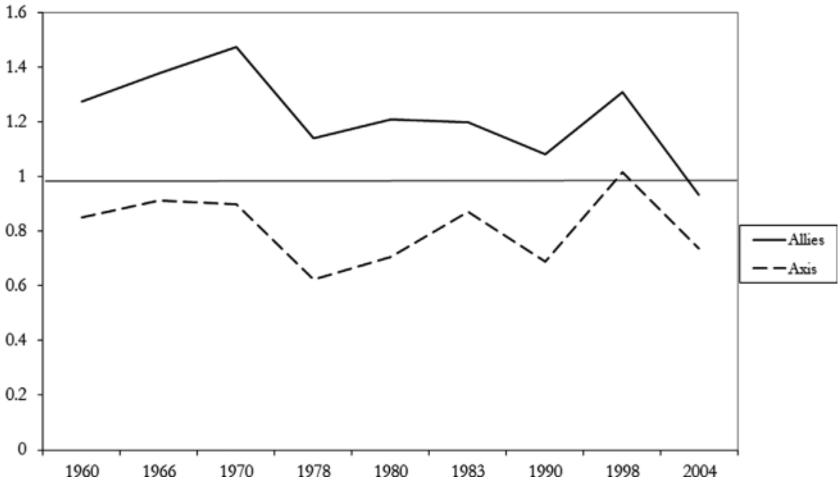

FIGURE 1.1 IMF voting Share/World GDP share
Note: Allies include Canada, France, United Kingdom, and United States. Axis includes Germany, Italy, and Japan. GDP is nominal. Data from IMF, Economics Intelligence Unit, and Rapkin et al. (1997).

in the global economy. By this measure, the wartime Axis powers (Germany, Italy, Japan) have lagged behind their actual place in the world economy despite the passing of over half a century and dramatic shifts in economic realities.[22]

Similarly, employment in international organizations has tended to favor nationals from the victors of World War II at the expense of the defeated powers. The Union of International Associations compiles data on the high-ranking officers in international organizations by country of nationality and educational background. According to this data, among the G7 countries, the former Allied powers of World War II have on average about twice as many prominent officers per country compared to Axis powers. As of 2012, France (337) had considerably more high-ranking officers than Germany (260), and Japan (49) had fewer than much smaller states such as Australia (101) and Canada (161).[23] Similarly, employees of international organizations educated in the entire city

[22] The IMF quota formulas incorporate measures besides GDP, including share of world trade and reserves. However, the quota formulas themselves have been historically subject to negotiation among major quota holders and actual quota shares do not necessarily reflect outcomes of the quota formulas. See Chapters 3 and 4.
[23] Union of International Associations 2014, figure 8.3.

of Tokyo are only a fraction of those educated in single academic institutions such as Harvard or Yale University.[24] The picture is much the same for developing countries that were not well-represented at the inception of many postwar institutions, such as Korea, India, and communist China. The selection of top level executives also remains stable by convention in a range of institutions – most notably the norm that assigns a European national as the Managing Director of the International Monetary Fund and a US national as the President of the World Bank.

This discrepancy in personnel has multiple causes – for example, due to limited labor market mobility and language barriers, East Asian nationals have traditionally faced greater obstacles and risk in pursuing full-time employment at international organizations. However, there are several institutional factors that tend to make employment static. Most notably, the distribution of institutional headquarters tilts toward countries such as France and the United States, which played important roles in institution building in the postwar period. The presence of an institutional headquarters can facilitate the employment of host-country nationals for a variety of reasons, among them: 1. Reducing hardship for nationals who can continue to reside in their home country. 2. Greater visibility and opportunities to establish contacts with current employees. 3. The tendency for current employees to prefer new hires with similar training or backgrounds.

In sharp contrast to these examples of path dependence, or the stubborn persistence of initial conditions, some international institutions have responded flexibly and rapidly to shifts in international realities. The substantive chapters of this book will highlight many instances of flexible adjustment among international institutions. For example, some institutions, such as Intelsat during its later years, utilize mechanical voting rules designed to adjust seamlessly to the ebb and flow of power. Unlike the IMF, the voting rules of the Council of the European Union have exhibited no bias in favor of inception members. Development lending institutions, such as the World Bank, often distribute voting rights and informal influence in ways that closely mirror underlying economic power and financial contributions.

Perceived imbalances in distributional features of international institutions are a politically salient issue for member states. Diplomatic campaigns to bring about redistributive change are ubiquitous. Nonetheless, there is striking variation in the degree of change that materializes. Some

[24] Union of International Associations 2005, figure 6.2.2.