



Beyond US Hegemony in International Development

China's initiative to establish the Asian Infrastructure Investment Bank (AIIB), attracting membership from G7 countries against the vocal opposition of the United States, has been recognised as a significant moment in an ongoing hegemonic transition.

This book examines how power transitions have played out in the World Bank over the last five decades, offering the first authentic account of the international diplomacy behind donor financing of the World Bank's International Development Association (IDA). Jiajun Xu decodes how the United States amplified its influence at the World Bank despite its flagging financial contributions to IDA. She further demonstrates that the widening influence-to-contribution disparity provoked other donors into taking 'exit/voice' measures, contesting the hegemon's legitimacy.

A rising China initially decided to become an IDA donor, seeking influence from within. But the entrenched hegemonic position of the United States in World Bank governance drove China to initiate the AIIB and New Development Bank, putting competitive pressures on the US-centred multilateral institutions to adapt.

DR JIAJUN XU is the co-founder (together with Professor Justin Yifu Lin) and Executive Deputy Director of the Centre for New Structural Economics at Peking University. Xu worked as a Junior Research Specialist at the United Nations' High Level Panel Secretariat on the Post-2015 Development Agenda responsible for the research on development financing and South-South Cooperation. She also worked as an international consultant on debt sustainability in the World Bank and productive capacity building for least-developed countries at the UNDESA Committee for Development Policy Secretariat. Xu holds a DPhil (PhD) from the University of Oxford.

Beyond US Hegemony in International Development

The Contest for Influence at the World Bank

JIAJUN XU
Peking University, Beijing



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Foreword

The rise of China is changing global economic governance. China's accession to the World Trade Organization in 2001 heralded a rapid growth in trade and investment flows with each region of the world. Its participation in the Group of Twenty Finance Ministers after the East Asian financial crisis in 1997 signalled an increased engagement in governance. This was followed by a closer engagement in the International Monetary Fund and an increased attention to international cooperation in development finance. Most recently, China led the way in creating the Asian Infrastructure Investment Bank in Beijing and the New Development Bank in Shanghai. However, alongside these developments, China's role in established institutions such as the World Bank is changing. This book offers an explanation of these changes, by dissecting how previous rising powers have sought influence in the World Bank and with what implications for the organization.

Jiajun Xu's research unpacks the negotiations which establish how much major donors give to the World Bank's concessional funding arm – the International Development Association (IDA). This is a crucial window into change in the organization. Although the World Bank's formal voting structure is virtually immutable, regular IDA 'replenishment rounds' offer a unique forum for countries to translate changes in economic power into shifts in influence in the World Bank. Every three years, countries engage in a long process of negotiations, vying for power and influence.

The World Bank's own public explanation is that IDA burden shares change to reflect the changing relative weight of the contributing countries in the world economy. But Xu's historical research offers a new analytical framework for understanding who ends up contributing what amount and what share of the total. First, she highlights the hegemonic interest of the United States, fluctuating in line with the intensity of the Cold War and with an ongoing persistence in exercising

influence in the governance of IDA even as its burden share fell sharply, especially after the Cold War. Second, she decodes the competition for status and influence among secondary powers in the developed world. Finally, she weighs in the exercise of exit and voice options as counterweights to US influence by other contributors to IDA.

The book contributes the first ever detailed history of the IDA replenishment process. As a doctoral student under my supervision at Oxford University, Jiajun analysed the dynamics of sixteen replenishment rounds from 1960 to 2013. In this book she details the political processes at work. We read about how the UK and Germany each tried to resist the first attempts by the United States to reduce its contributions whilst retaining its influence. We learn about Japan's bid for voting power as it rose to become the second largest economy in the world. Uncovered are the standoffs over US arrears and the ensuing birth of a special facility for Africa, as well as struggles with Bank management over independence, accountability, and incentives. The account is pieced together from the archives at the World Bank, in the United States and in the UK, as well as through countless interviews.

The role of China is examined in the latter part of the book, based on a set of interviews Xu conducted in Beijing during 2011–2013. She writes up the debate among Chinese policy makers that led to the decision to put its major multilateral funding through new institutions rather than lifting its contribution to IDA and other established multilateral financing facilities. That said, in January 2016 the US Congress finally stopped holding out support of a package of reforms in the IMF and World Bank which will increase China's voting power in each organization. This may encourage greater participation in the World Bank. But Xu's work highlights that China has exercised an exit and voice option vis-a-vis the World Bank that has already made its mark.

Ngairé Woods
Oxford, April 2016.

Acknowledgments

My supervisor at Oxford, Professor Ngaire Woods, then Director of the Global Economic Governance Programme and subsequently Dean of the Blavatnik School of Government, played a central role in guiding me through the DPhil project that is the basis of this book. As a leading international scholar on global economic governance, and the Bretton Woods Institutions in particular, Ngaire inspired the focus on the donor financing of the World Bank's soft-loan window to anchor my ambitious inquiry into how a US-led hegemonic international development financing system adapts to power transitions. To search for a solid empirical ground, I focus on resolving the central puzzle of why shifts in burden shares in the International Development Association (IDA) were *not* always driven by rise and fall in economic fortunes. This required developing an analytical framework for disentangling the complex relationship between material capability, financial contributions, and policy influence of donor countries at the World Bank. I am immensely grateful for her active interest in my work and the speed of her feedback to my detailed drafts of empirical chapters and my evolving hypotheses.

During the course of this research, my work has been greatly improved thanks to the constructive feedback from Professors Walter Mattli, Kalypso Nicolaïdis, Duncan Snidal, and from Dr. Karolina Milewicz in the milestones of my DPhil studies. I am also grateful for vibrant discussions with Professors Rosemary Foot, Edward Keene, and Yuen Foong Khong. I am particularly thankful for the deep knowledge and wide perspectives brought to bear on my thesis by my examiners, Professors Andrew Hurrell and Robert Wade, during and following my viva. Professor Wade kindly provided detailed editing suggestions to clarify the material and render it more easily readable.

I owe deep gratitude for two long-term mentorships, from Richard Carey (the former Director of the OECD's Development Co-operation

Directorate) and Percy Mistry (the former Director & Senior Adviser, Finance Complex from 1981–87 in the World Bank). Their wisdom as both practitioners and thinkers guided me in grasping the essential dynamics of the international diplomacy behind the donor financing of IDA. They helped to put me in touch with key players, opening up doors for further interviews. They read several drafts of each chapter with keen interest. For their help, advice, and friendship, I owe deep gratitude. I recognise particularly my mentorship with Richard, which has evolved into a productive intellectual partnership enabling us to co-author several frontier articles on development finance.

I also want to give special thanks to Richard Manning and Alex Shakow, who held senior positions in the UK development agency and the World Bank, respectively. Without their support in contacting key decision-makers, my fieldwork would not have been possible.

More than one hundred former and current actors in the IDA governance and financing system (they were fused in the replenishment processes) gave their time to recall and explain events and behind-the-scenes debates and dramas in the IDA history. They made this history come alive for me, and I hope for readers of this book too. And through these fascinating encounters I have been able to position the IDA story in the wider Cold War context and the ongoing geopolitical developments of our current times. Too many to identify, I do offer here my deep thanks to them all.

Archivists from the UK National Archives, the US National Archives, and others helped me to access to official documents. I am particularly grateful to the World Bank archivists: they worked strenuously to declassify more than 180 folders. Given the limited materials available on IDA replenishments, my research would not have been feasible without their professional support. I gained enormous encouragement when an archivist in the Bank smiled at me in front of a pile of newly declassified documents and said, ‘You are a pioneer breaking new ground.’

My fellow classmates at Oxford made this journey a stimulating and enriching one. I appreciate the feedback from many, including Eliza Gheorghe, Julian Gruin, Nina Hall, Ivo Iaydjiev, Seth Johnston, Helen Campbell Pickford, Suwita Hani Randhawa, Ruben Reike, Michael Sampson, Jack Seddon, Nora Stappert, Vinícius Rodrigues Vieira, Jeffrey Wright, and Makio Yamada.

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This book is dedicated to my family – my parents, Xu Chengwei and Dong Xiaoyu, and my husband, Song Fangtao. It is their enduring love that enables me to find the essential energy to pursue my academic aspirations.

Abbreviations

AfDB	African Development Bank
AfDF	African Development Fund
AIIB	Asian Infrastructure Investment Bank
AsDB	Asian Development Bank
AsDF	Asian Development Fund
CASs	Country Assistance Strategies
CIA	Central Intelligence Agency
CIEC	Conference on International Economic Co-operation
CPIA	Country Policy and Institutional Assessment
CRS	Congressional Research Service
CRW	Crisis Response Window
DAC	Development Assistance Committee
DAG	Development Assistance Group
DFID	Department for International Development
EDF	European Development Fund
EEC	European Economic Community
EMS	European Monetary System
FCO	Foreign and Commonwealth Office
FSOs	Fund for Special Operations
FY	fiscal year
G-5	Group of Five
G-7	Group of Seven
G-24	The Group of Twenty-Four
GAO	General Accounting Office
GCI	General Capital Increase
GEF	Global Environment Facility
GNI	Gross National Income
GNP	Gross National Product
GPG	global public good
GQR	General Quota Review
HICs	high-income countries

List of Abbreviations

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HIPC	Highly Indebted Poor Countries Initiative
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFAD	International Fund for Agricultural Development
IFC	International Finance Cooperation
IFIs	international financial institutions
IMF	International Monetary Fund
IO	international organisation
IR	international relations
ITF	Interim Trust Fund
LDCs	less-developed countries
LICs	low-income countries
MCC	Millennium Challenge Corporation
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MICs	middle-income countries
MIGA	Multilateral Investment Guarantee Agency
MOF	Ministry of Finance
MOFA	Ministry of Foreign Affairs
MOFCOM	Ministry of Commerce
MOV	Maintenance of Value
NAC	National Advisory Council on International Monetary and Financial Policies
NATO	North Atlantic Treaty Organization
NCBP	Non-Concessional Borrowing Policy
NGOs	Non-Governmental Organisations
NIEO	New International Economic Order
ODA	official development assistance
ODI	Overseas Development Institute
ODM	Ministry of Overseas Development
OECD	Organisation for Economic Co-operation and Development
OED	Operation Evaluation Department
OPEC	Organization of Petroleum Exporting Countries
PBA	performance-based allocation

PBOC	The People’s Bank of China
PEPFAR	President’s Emergency Plan for AIDS Relief
PRC	People’s Republic of China
RDB	Regional Development Bank
RMS	Results Management System
SAL	Structural Adjustment Lending
SCI	Selective Capital Increase
SCO	Shanghai Cooperation Organisation
SDR	Special Drawing Rights
SFA	Special Facility for Africa
SSA	Sub-Saharan Africa
SUNFED	Special United Nations Fund for Economic Development
UAE	United Arab Emirates
UN	United Nations
UNECAFE	United Nations’ Economic Commission for Asia and the Far East
UNEP	United Nations Environment Programme
UNHCR	United Nations High Commissioner for Refugees
UK	United Kingdom
US	United States
USAID	US Agency for International Development
WTO	World Trade Organization