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Power And Global Economic Institutions

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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).

and veto authority should be maintained [in the IMF and the World Bank]" and that the position of the USA "helps maintain domestic support for the institution" (US Senate 2010, p. 4). The importance of formal political power for domestic ratification bodies compounds the importance of analyzing it (e.g., Putnam 1988; see also Chapter 3).

Even when members do not resort to formal procedures, formal political power impacts outcomes. For instance, the IMF and the World Bank's Executive Boards tend to reach decisions by consensus. However, consensus does not mean equal input. Rather, consensus suggests "a position supported by executive directors having sufficient votes to carry the question if a vote were taken" (Gold 1972, p. 198). And, "[a]t no time has the avoidance of voting connoted a dismissal of interest in voting power" in the two international financial institutions (p. 216; see also Boughton 2001, e.g., p. xxi). Regarding consensus in the IMF, Pauly (1997, p. 113) similarly notes: "everyone knows the way votes would come out if they had to be taken."[23] In short, formal political power is a critical factor in explaining both the (re)design of institutions and how they function.

In addition to exploring a critical dimension of institutional design and functioning, this book explores several empirical puzzles that the literature has largely ignored. In Chapter 3, I use an original dataset to analyze IMF quota changes over 1965–2010, showing US influence over these quota adjustments.[24] The literature has not systematically studied the determinants of IMF quotas, which on paper appear to be reasonably clear, as there is a quota formula with a number of economic indicators. The actual determinants of a member's quota, however, deserve discussion. For one, there were numerous formulae until 2008, and there was lack of transparency regarding which formula was used for which country. Further, the member states politically negotiate the actual quotas. Room for such political negotiation raises questions about whether the institutionally dominant states can exert informal influence. While scholars have explored US informal influence over matters where member states have delegated tasks to the IMF staff, such as loans, US influence over quota adjustments has not yet been studied. Chapter 3's finding that political-economic proximity to the USA enhances a member's quota shift is, thus, significant.

[23] By the same token, the voting equality at the World Trade Organization, where decisions are made by consensus, has also been consequential, particularly for the launching of new rounds (e.g., Steinberg 2002).

[24] IMF quotas determine members' maximum financial contributions to the institutions and thereby the bulk of their voting power. See also footnote 5.

Another relatively under-explored question the book examines is the origins of the multilateral trading system and the failed International Trade Organization (ITO). Chapter 4 probes why the US actors and their interlocutors created the multilateral trading system with voting equality, unlike the weighted voting system in the IMF and the World Bank. As the preeminent economic power at the creation of all three institutions, why did the USA agree to voting equality in the trade institution? This question has received little attention in the literature.

Finally, there is still very little scholarly analysis of the 2008–2010 changes in members' formal political power in the IMF, the World Bank, and the upgrade of the G20.[25] Among these changes, in 2008 the IMF revised its formula for determining member states' financial contributions (and thus the bulk of their voting power) within the institution, and for the first time moved to a single formula for all members. In 2010, the World Bank, also for the first time in its history, generated its own formula for determining members' shares, parting with its tradition of mostly relying on the IMF quota formula. These 2008–2010 shifts in the IMF and the World Bank constitute, disputably, the most extensive changes to the rules and conventions governing formal political power.[26]

To my knowledge, this is the first book on these recent shifts in formal political power at these multilateral economic institutions. While some might argue that a link between the rise of large emerging economies and the 2008–2010 changes at these three multilateral economic institutions (IMF, World Bank, G20) is self-evident, the nature of that link and how it differs across the three institutions demands detailed analysis. It also provides a great opportunity to explore the relationship between economic and political power. Further, the nascent literature that exists on these 2008–2010 shifts does not provide a cross-institutional, comparative analysis of the kind this book provides.[27] The detailed analysis of these changes contributes significantly not just to the analysis of how shifts in the inter-state economic power affect multilateral economic institutions, but also to charting the trajectory of these institutions.

Leading scholars have identified a need for the kind of analysis this book provides in order to advance our understanding of international political economic relations. For instance, Robert Keohane (2009, p. 34)

[25] Exceptions include: Kaya (2012); Lesage et al. (2013); Wade (2011); Woods (2010). The transition from the G7 to the G20 has produced an extensive literature, but I argue this literature has generally not studied the G20's institutional features comprehensively (Chapter 7).

[26] At the time of writing, some members are still in the process of implementing some of these agreed-upon reforms.

[27] While Wade (2011) talks about both the IMF and the World Bank, he does not analyze them in a comparative manner.

has noted that the discipline of international political economy (IPE) is "remarkably reluctant to focus on major changes taking place in world politics," such as the impressive economic development happening in China and its wider repercussions for international political economy (see also Mosley and Singer 2009). And he is not alone among prominent International Relations scholars critiquing IPE's increasing distance from crucial events unfolding in the global economy (e.g., Aggarwal 2010; Cohen 2010). The book's focus on the 2008–2010 shifts in members' formal political power in central multilateral economic institutions addresses these calls.[28] Another line of recent criticism comes from Drezner and McNamara (2013, p. 156), who identify the sidelining of power as one of the critical shortcomings of the current literature: "By bracketing the international elements of the political economy, and by excluding power and social dynamics in favor of economic analysis of preferences, conventional IPE has severely limited our ability to understand and interpret both the political sources and impact of phenomena." This book, in contrast, centralizes the study of institutional design and its adaptation in the face of a (changing) distribution of economic power.

The methods and sources

In focusing on the distribution of formal political power in multilateral economic institutions, and how that distribution relates to the underlying distribution of economic power, I use both case study methodology and quantitative approaches.

First, the cases chosen allow for a comprehensive examination of the relationship between the inter-state distribution of economic power and member states' formal political power in the most critical multilateral economic institutions. The two historical cases focus on the IMF, the World Bank, and the International Trade Organization (ITO) – the three integral multilateral economic institutions created at the end of the war.[29] These cases provide an examination of the core question in a direct way: why were these institutions planned with different rules for member state representation? The two international financial institutions embodied weighted voting, while the ITO embraced voting equality. While the origins of these institutions and the US leadership in creating them has been a prevalent concern in the literature, existing works have not

[28] Mosley and Singer (2009) specifically call for an analysis of the 2008–2010 changes in the economic institutions studied in this book.

[29] I analyze the IMF and the World Bank together. The ITO is a failed institution, but the surviving trade institution, the General Agreements on Tariffs and Trade, was planned as a part of the ITO (Chapter 4).

adequately analyzed the US actors' expressed preferences regarding the distribution of formal political power in these institutions and the relevant inter-state negotiations on them.

The three contemporary cases constitute the most prominent cases of shifts to member states' formal political power in multilateral economic institutions – the IMF, the World Bank, and the G20.[30] Analyzing the instances of adjustments to member states' formal political power is necessary to being able to ascertain the inter-relationship between shifts in inter-state economic power and states' formal political power at multilateral economic institutions.[31] These cases are particularly suited to the purposes of this book, as they reveal institutional responses to the relative economic decline of the institutionally dominant members (the large advanced economies) and the rise of large emerging economies, which has been occurring over the last several decades (e.g., Canuto and Lin 2010; Layne 2009; Chapter 5). Examining the variation between the economic shifts, on one hand, and their institutional implications for formal political power, on the other, directly facilitates the core purpose of this book.

As these points suggest, *within each time period*, the inter-state distribution of economic power can be treated as the same across institutions. Put differently, within each period, the analysis "controls for" the distribution of economic power in understanding why that distribution manifests itself in varying degrees across different institutions.

First, beyond providing an analysis of the adjusted power approach in different time periods, the inclusion of both historical and contemporary cases enriches the analysis of the relationship between economic and political power. Understanding the historical background in formal political asymmetries enables a more comprehensive analysis of the relationship of states' economic power and their formal political power in multilateral economic institutions. The historical cases also permit the exploration of some theoretical propositions in depth by tracing actual events. As an example, while a strand of the rational choice literature on

[30] Beyond centrality of the IMF and the World Bank to the governance of the global economy (e.g., Drezner 2012), they are the only financial institutions that boast nearly universal membership. The G20 case is prominent because it led to the sidelining of the G7, another central governing body, and facilitated reform of other institutions, particularly the Financial Stability Forum (FSB).

[31] Here, if the dependent variable was "reform" or "change," then selecting based on the dependent variable might have been a concern, but the dependent variable is the distribution of formal political power in multilateral economic institutions, and the central aim is to analyze how shifts in them relate to changes in the underlying distribution of economic power.

multilateral institutions, the rational design theory, identifies voting rules as a key dimension of institutional design, it leaves it under-analyzed (Koremenos et al. 2001a, 2001b; see Chapter 2).[32]

Second, the cases chosen allow the analysis to be focused on a distinct number of select variables because the institutions under study are economic inter-governmental organizations. Put differently, focusing on similar institutions reduces the potential pitfalls of having to consider the impact of variables that would stem from analyzing different types of institutions. For example, the Financial Stability Board (FSB) also experienced changes to members' formal political power during the 2008–2010 period, but this change to the FSB resulted directly from the changes to the G20 and, importantly, the FSB is *not* a "substantial inter-governmental organization" and has non-state actors as members (Griffith-Jones et al. 2010, p. 7; Chapter 7). While extensions to this book could examine more institutions, here investigating the shifts in members' formal political power only in central economic inter-governmental institutions avoids other methodological issues that could arise from examining inter-governmental versus hybrid institutions.

Third, while the G20, which constitutes the focus of the final case study, is a relatively informal inter-governmental institution in comparison to the other institutions examined, its inclusion in the book serves a critical purpose beyond analyzing crucial shifts in the current global economic order. Although the 2008–2010 shifts in members' formal political power in the IMF and the World Bank were long-drawn-out processes and have been relatively contentious, a number of rich country leaders upgraded the existing G20 from being a marginal forum for finance ministers to a central forum for heads of state in 2008 without demand from the rising states (Kirton 2011). This ease with which the rich countries extended their club contrasts with the frictions in the IMF and the World Bank. Probing the reasons for this difference and whether the adjusted power approach's central claim (that institutional settings adjust the importance of the changes in the distribution of economic power) stands in the case of the G20 strengthens the analysis.[33] Overall, the case studies, as commonly used in the literature, provide an

[32] Koremenos et al. (2001b, p. 1060) analyze the distribution of voting in an institution as a dependent variable labeled as "control" and state frankly that their "findings on control . . . are sparse, so we do not claim much for them."

[33] While the G20 is an informal institution and the IMF and the World Bank are formal institutions, the core variables of analysis are applicable to the G20 (see footnotes 7 and 19). Also, just as not all formal institutions are the same, not all informal institutions are the same either, which again motivates a focus on the institutional features of the G20.

opportunity to explore the extent to which the evidence meets the expectations of the book's analytical framework, the adjusted power approach (e.g., Drezner 2007; Odell 2001; Stone 2011).

In addition to case studies, the book also quantitatively investigates the determinants of formal political power. Particularly, Chapter 3 analyzes shifts in member states' quotas in the IMF between 1965 and 2010, upon which the contemporary cases examining the 2008–2010 period elaborate (Chapters 5 and 6). The quantitative examination of IMF quotas also helps explain how individual (member state) positions have changed within the IMF, while the rest of the book focuses on meta-trends, marked by the relative economic decline and rise of certain states. Since IMF quota shifts have traditionally influenced members' shares in the World Bank, Chapter 3's discussions also provide a window into Bank share adjustments.[34] Aside from the explanatory statistics in Chapter 3, throughout, the book relies on descriptive data, most of which I collected for this study.

The book utilizes a range of documents in addition to scholarly books and articles, including archival material on the IMF, the World Bank, and the International Trade Organization (ITO) and other official documents, including transcripts of Board meetings and speeches from these institutions. The reliance on original documents allows the book to provide a close-up of actors' preferences (as they were expressed) and traces events in detail.[35] The book also benefitted from a select number of anonymous interviews with current or former IMF and World Bank officials. Although I do not use the evidence from the interviews on their own, they nonetheless contributed to confirming (or otherwise) some of the points I make regarding the 2008–2010 changes to members' formal political power in the IMF and the World Bank as well as the G20.

Plan of the rest of the book

The next chapter (Chapter 2) outlines the theoretical framework of the book – the adjusted power approach. While this approach extrapolates from existing theories, such as variants of realism and institutionalism, the chapter also identifies how the content and expectations of the theory differ significantly from these existing approaches.

[34] Unfortunately, I could not formulate a complete dataset of shareholding changes in the Bank.

[35] One of Elster's (1989, 2000) main criticisms of rational choice is its avoidance of in-depth analysis and assuming rational action based on outcomes. Process tracing of this kind is thus important in avoiding *post hoc ergo propter hoc* reasoning.

Chapter 3 begins the historical analysis of the relationship between the inter-state distribution of economic power and members' formal political power within the institutions. It demonstrates that the IMF and the World Bank ended up with weighted voting largely because of the US designers' and their interlocutors' belief that this system of voting would best fit the institutions' intended functions and purposes. The Chapter also details the rules and conventions regarding the changes in members' formal political power specifically focusing on IMF quota (thus voting power) adjustments. The manner in which the member states negotiate these adjustments provides an opportunity for the institutionally dominant state(s) to exert influence. To explore whether or not this potential for influence has indeed materialized, the chapter examines members' quota increases in 1965–2010. The evidence demonstrates that an increase in the member state's volume of bilateral trade with the USA boosts the increases a member receives to its quota. Overall, Chapter 3 outlines the origins of formal political asymmetries within the IMF and the World Bank and sheds light onto the determinants of individual member quotas.

Chapter 4 provides a follow-up to Chapter 3 in asking why the multilateral trading system was created with voting equality, when the two international financial institutions preceding it were not. As the chapter shows, the voting differences across the three institutions cannot be dismissed easily because the US officials floated a proposal for weighted voting during the inter-state negotiations on the ITO. In explaining voting equality at the ITO, two immediate answers deeply rooted in International Relations literatures come to mind: (1) the trading institution was created three years after the financial institutions, when the Cold War was beginning, which raises questions about whether the onset of the Cold War had something to do with voting equality; (2) the USA had to signal "restraint" by relying on voting equality. Differing from these explanations, the chapter argues that the voting equality in the multilateral trading system can primarily be explained with reference to the US designers' conceptualization of the institution. Interestingly, contrary to the expectations of "two-level games," the US negotiators pursued their vision, even when domestically key groups, which would ratify the ITO agreement, contested that vision. In the end, the chapter researches a relatively under-analyzed issue on formal political asymmetries within multilateral economic institutions, while providing support for the adjusted power approach and engaging with alternative theoretical expectations.

Chapter 5 begins with a descriptive analysis of the rise of large emerging economies in the last three to four decades, which provides the necessary background to the contemporary cases of the book (Prologue to Chapter 5). I label the large emerging economies as "the rising states" and the large advanced economies as institutionally dominant but (relatively) economically "declining states," though the discussions pay attention to discrepancies within these groups as well as to the poorest states.

After this prelude to the contemporary cases, Chapter 5 proceeds to analyze the 2008–2010 shifts in the member states' formal political power in the IMF. These changes were more extensive in redistributing formal political power away from the institutionally dominant but economically declining states (the large advanced economies) to the rising states (the large emerging markets) than earlier reform plans had suggested. A number of institutional factors, underlined by the adjusted power approach, help explain this outcome of relatively extensive "accommodation." Importantly, the declining states considered increases in the rising states' formal political power as essential for more effective surveillance of these countries' economies as well as their greater involvement in burden-sharing the financing of the institution. The manner in which the member states fund the IMF affected the content as well as the timing of the 2008–2010 changes. The institution relies heavily on state financing, whether through quotas or loans, with little ability to raise capital on its own. Further, the chapter shows that existing institutional conventions on the adjustment of formal political power help understand the process of change and its incremental nature.

Chapter 6 examines the 2008–2010 shifts to member states' formal political power in the World Bank. Both in comparison to earlier reform discussions at the Bank and in comparison to the IMF, these shifts were relatively less extensive in distributing formal political power toward the rising states. This outcome of "limited accommodation" can partially be explained with reference to the tensions between the rising and the declining states regarding the role the latter (should) play in the provision of the institution's intended global good of economic development. Specifically, the former would like to see the Bank as serving increasingly only its poorest members, thereby discouraging the rising states from relying on the institution's non-concessional resources. In this context, greater position enhancement by the rising states would only increase the ease with which these members could rely on the IBRD's relatively inexpensive loans. Further, for various reasons, the burden-sharing rationale was relatively muted at the World Bank. At the same time, the Bank's institutional conventions, particularly its tradition of following IMF shifts in quota, limited the possibilities for change in the Bank as well as affecting the nature of the shifts in members' formal political power. Finally, even though the Bank's mission is multilateral economic development, and thus low-income countries play a crucial role in whether or not the Bank succeeds in its mission, the low-income countries made only minor gains through the 2008–2010 reforms. This last point further supports the adjusted power approach's contention that a mere focus on institutional purposes would not adequately help explain the 2008–2010 changes, just as a sole emphasis on power dynamics among core states would not suffice either.

Chapter 7 examines the 2008 upgrade of the G20, which seemingly poses a puzzle to the adjusted power approach. While much of the book, particularly the 2008–2010 shifts in the IMF and the World Bank, show that the declining states' accommodation of the rising states was a contentious process, where the declining states aimed for limited accommodation at varying degrees, the G20 case does not display the same level of contention. In the case of the G20, in 2008, a number of leaders from the large advanced economies extended their club to the rising states by upgrading an existing forum (G20 gatherings of finance ministers to G20 summits of heads of state) and consolidated this upgrade by subsequently relying on the revamped G20. Further, the G20 relies on relatively egalitarian decision-making procedures, giving its members equal formal political power. Hence, the accommodation in this case can be identified as both discretionary and extensive. Why was accommodation relatively more contentious in the IMF and the World Bank, but discretionary and extensive in the G20? The chapter argues that the core institutional features and functions of the G20 as an informal, "delegatory" institution explain the different nature of accommodation in the G20. The G20 delegates tasks to other institutions and does not itself execute on them. This particular informality, in turn, makes differentials in states' formal political power within the institution relatively less important, contributing to the understanding of the nature of the declining states' accommodation.

Chapter 8 concludes by discussing the broad implications of the book, further locating it vis-à-vis existing arguments and frameworks. It highlights the relevance of the book for understanding the governance of the global economy through multilateral economic institutions. For instance, the book shows the difficulty in narrowing the perceived gap between the shifts in the distribution of inter-state economic power and the members' formal political power in multilateral economic institutions. Even a crisis that is perceived to be monumental, such as the 2008 global economic crisis, did not alter existing institutional practices to the point of allowing radical change. Rather, the institutions adjusted the importance of the crisis, just as they mediated the significance of the underlying distribution of economic power. At the same time, the book's discussions of the 2008–2010 shifts in formal political power demonstrate the tensions between the key actors – the economically rising and declining states – that remain under-addressed. In this respect, the concluding chapter shows that while the 2008–2010 changes reveal the revival of the existing multilateral institutions, they also elucidate their potential sources of weakness.