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China's Multi-Front Institutional Strategies in International Development Finance

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Abstract

China has expressed its dissatisfaction with aspects of the international development finance regime for many years, related to issues such as its lack of voting power and an insufficient focus on infrastructure spending by traditional multilateral development banks. To address these dissatisfactions, China has utilised a range of approaches, from the application of pressure inside existing institutions, to building outside pressure in the form of using alternative institutions or creating new ones. But how has the combination and timing of these different measures impacted its success in ultimately securing reforms? Applying insights from the institutional choice literature, we find that China has pursued both inside and outside measures to try to secure its objectives in development finance with varying degrees of success. Simply combining these measures has been insufficient to secure success however. In cases where China has exerted internal leverage prior to utilising outside options, it has been the most successful. We conclude that combination and sequencing of these approaches is an under-appreciated factor in determining success of dissatisfied states in securing changes to institutions.

Introduction: China and the International Development Finance Regime

Within roughly two and half decades, starting from 1993, China turned from the World Bank's largest loan recipient to the world's largest sovereign creditor of overseas development projects. Chinese borrowers, including local governments and state-owned enterprises, benefited significantly from the Bank's financial and technical support in the first 20 years of its official collaboration with the World Bank that started in 1980.[1] The Bank contributed valuable and often innovative ideas, technologies, and management skills of development to China's economic advancement. Similar arguments could be made about China's collaboration with the Asian Development Bank (ADB), which started in 1986.

[1] Beijing took over Taipei's representation of China in 1980, which marked the start of its World Bank membership.

However, as China's economic resources started to accumulate rapidly and the private-sector investors proliferated in the Chinese market at the beginning of the new millennium, financial assistance from multilateral development banks (MDBs) became less desirable to the Chinese. Furthermore, China's development experience boosted Beijing's confidence in its own political–economic regime, which notably diverged from the neoliberal economic model and "good governance" concepts that the World Bank promoted. Some of the World Bank and ADB's lending procedures and policy advice inevitably conflicted with the Chinese borrowers' and sometimes Beijing's interests. The various conflicts of interests made for China's dissatisfaction with the incumbent MDBs. Meanwhile, China's economic power and political influence expanded rapidly from the 2000s, giving Beijing a strong foundation for speaking out about its dissatisfaction and calling for reforms in the MDBs.

China's dissatisfaction with incumbent MDBs, especially the World Bank and ADB, are multifaceted but can be classified into two categories "policy dissatisfactions" and "structural dissatisfactions." Of these, four primary Chinese concerns about incumbent MDB's institutional structure, policy preferences, and operations are raised and elaborated in this paper.[2] First, is incumbent MDBs' westernised and interventionist approach to lending, and especially that in deploying environmental and social safeguards, which overlooks the recipient developing countries' own development experience. Second is the decline of resources devoted to infrastructure projects in these banks. Third is China's underrepresentation and relatively reduced formal decision-making power in the World Bank and ADB. And finally, is incumbent MDBs' donor-dominated set-ups institutional and operational.[3] This is not an exhaustive list, yet the four concerns mentioned here are the most common complaints China has raised about the incumbent MDBs and the international development regime that they are centred around since the 1990s. The first two dissatisfactions of interventionist approaches to lending and declining infrastructure spending are categorised as "policy dissatisfactions" because they relate to substantive disagreements regarding strategy and implementation. Meanwhile, dissatisfaction with underrepresentation in voting power and donor domination are "structural dissatisfactions" because they relate to the formal rules and procedures of the institutions themselves. The authors analysed and compared Chinese representatives' speeches at the World Bank and ADB's annual meetings from the 1990s to 2021 and several key reports of the banks that evaluated their collaboration with China in the same period in which Chinese stakeholders' feedback was incorporated, and interviewed several former and current employees of the World Bank and ADB. These sources show that these four issues are considered the most important and persistent over the said period. They are also closely linked to China's core interests in international development.

How has China sought to address these dissatisfactions? On what issues has it been most successful? And what can this tell us about approaches to institutional change more broadly? To address these questions, in the subsequent discussion we outline relevant insights from the institutional choice literature which relate to the options available to dissatisfied states to change institutions and the conditions under which they are likely to be successful. In doing so we identify a gap in the literature: Despite a detailed understanding of the options available to dissatisfied states and a widespread acceptance of historical institutionalist insights that sequencing and timing matter, there has been relatively little empirical exploration of

[2] China has been evidently more "unsatisfied" with the World Bank than the ADB. Therefore, this paper discusses more of China "dissatisfaction," and the relevant measures China deployed to address them, with the former than the latter.

[3] Although the question of whether these complaints are merited is an important one, this question is beyond the scope of the article. We do not adopt a normative position on the merits of China's complaints either way. Rather we take these goals as given and explore how China has sought to achieve them.

the impact of different combinations and sequences of the available options. To address this we build on rationalist frameworks and apply insights from the institutionalist literature to the case of China and its dissatisfactions with the international development finance regime. We use this case to show how the sequencing and combination of these measures is important for determining outcomes. We show that the adoption of the inside measures of voicing dissatisfaction and pushing for internal change are important prerequisites for ensuring that subsequent outside pressures of using or creating alternative institutions are most effective. Specifically, China has found more success in securing its objectives when it comes to its policy dissatisfactions but less success in addressing structural dissatisfactions. An important difference between China's approach in the successful and less successful cases is that in the latter few decisive internal change measures were pursued. This is because it is difficult to address institutional/structural dissatisfactions in traditionally western-dominated institutions as structural reforms create zero-sum dynamics that are hard to overcome in ways that policy dissatisfactions are not.

Available Options for Institutional Change

When existing institutions fail to serve their interests, dissatisfied states will attempt to reform them.[4] However, this process is often constrained by path dependence, the resistance of powerful member states, and a lack of leverage on the part of the dissatisfied state.[5] The response of institutions[6] themselves can also vary, sometimes adapting swiftly in order to remain relevant by granting concessions to dissatisfied powers in return for their continued support.[7] On other occasions, institutions can successfully resist change, and the degree to which they can do so often depends on the ability of the dissatisfied states to exercise effective outside options.[8] Where such outside options exist, the fear on the part of the existing institution that it could be sidelined provides greater incentives for it to respond more favourably to the concerns of dissatisfied members. Where these outside options are not available, a strategy of reform will be more costly for the dissatisfied state and have more limited possibilities for success.[9] The availability of these outside options depends, in turn, on the policy area in which the institution operates, with each issue area varying in its propensity for competition.[10] The organisational density and resource availability in a given issue area can mean that the development of new institutions is constrained in high-density institutional environments.[11] These insights highlight how the institutional environment determines the credibility of outside options, which in turn can determine the willingness

[4] Oran R. Young, "Regime Dynamics: The Rise and Fall of International Regimes," *International Organization*, Vol. 36, No. 2 (1982), pp. 277–97; Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge: Harvard University Press, 1970).

[5] Paul Pierson, *Politics in Time* (Princeton: Princeton University Press, 2000); Joseph Jupille, Walter Mattli and Duncan Snidal, *Institutional Choice and Global Commerce* (Cambridge: Cambridge University Press, 2013); Miles Kellerman, "The Proliferation of Multilateral Development Banks," *Review of International Organizations*, Vol. 14, No. 1 (2019), pp. 107–45.

[6] In this article we adopt the definition of institutions as formal international organisations. As such, this definition does not incorporate broader notions such as regimes (which we use separately) or institutions defined in terms of informal rules, practices, or norms. We define regimes as a collection of institutions in a given issue area. For a broader discussion see John Duffield, "What Are International Institutions?" *International Studies Review*, Vol. 9, No. 1 (2007), pp. 1–22.

[7] Andreas Kruck and Bernhard Zangl, "Trading Privileges for Support: The Strategic Co-Optation of Emerging Powers into International Institutions," *International Theory*, Vol. 11, No. 3 (2019), pp. 318–43.

[8] Phillip Y. Lipscy, *Renegotiating the World Order, Renegotiating the World Order* (Cambridge: Cambridge University Press, 2017).

[9] Julia C. Morse and Robert O. Keohane, "Contested Multilateralism," *Review of International Organizations*, Vol. 9, No. 4 (2014), pp. 385–412; Phillip Y. Lipscy, "Explaining Institutional Change: Policy Areas, Outside Options, and the Bretton Woods Institutions," *American Journal of Political Science*, Vol. 59, No. 2 (2015), pp. 341–56.

[10] Lipscy, *Renegotiating the World Order*. Competition increases where functional differentiation is low, that is, where multiple institutions perform the same functions.

[11] Kenneth W. Abbott, Jessica F. Green, and Robert O. Keohane, "Organizational Ecology and Institutional Change in Global Governance," *International Organization*, Vol. 70, No. 2 (2016), pp. 247–77.

Table 1 Measures for Securing Institutional Reform[*]

	Less costly	More costly
Inside measures	Voice	Obstruct/Innovate
Outside measures	Select	Create

[*]Adapted from John G. Ikenberry and Darren J. Lim, "China's Emerging Institutional Statecraft," *Project on International Order and Strategy*, No. April (2017), pp. 1–23; Joseph Jupille, Walter Mattli, and Duncan Snidal, *Institutional Choice and Global Commerce* (Cambridge: Cambridge University Press, 2013); Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, MA: Harvard University Press, 1970).

of institutions to respond to dissatisfied states. This helps to clarify the conditions under which dissatisfied states are more likely to secure their objectives of changing an existing institution. Yet, the institutional environment is not the only determinant of whether attempts at reform succeed. Even in similar institutional settings, there are often multiple available strategies that can be pursued. The choice of the dissatisfied state is therefore also an important determinant of outcomes.

Research on institutional change suggests that there are broadly two categories of options available to a dissatisfied state, which we label here as inside and outside measures. Inside measures refer to actions taken to promote change within the existing institution without reference to alternative institutions. These inside measures can be further subdivided into two types of behaviour, one is *voice*, the expression of dissatisfaction with an institution within the institution itself.[12] The second type is *obstruction/innovation*, the action or threat of action related to voting against or blocking certain measures or coordinating with other dissatisfied states to promote or block particular novel developments at the institution. A recent example of such behaviour is the USA blocking appointments to the appellate body of the World Trade Organization (WTO) due to its dissatisfaction with the role of that body in the dispute settlement process.[13]

In terms of outside behaviours, we also subdivide these into two categories in line with existing frameworks. The first approach, *select*, seeks to utilise alternative existing institutions to secure the dissatisfied state's objectives while the second approach *create* seeks to establish new alternative institutions.[14] Each of these inside and outside behaviours are costly for the dissatisfied state, with obstruct/innovate being considered more costly than selection and creation being more costly than selection or obstruct/innovate.[15]

It has been suggested that when selecting from these different measures, states possess a limited view of the consequences of each action and, being risk averse and boundedly rational, they depart from the status quo "only when earlier options fail to satisfy a minimum threshold requirement for acceptability." Rather than using backwards induction to find an optimal solution, states "take smaller steps rather than venture far down the path of institutional choice."[16] In this line of reasoning, states work their way from the lowest cost option of using existing institutions, to institutional selection of alternatives, to institutional change, until only belatedly opting for the most costly option of institutional creation when absolutely necessary.[17] In practice, states also pursue these options

12 Hirschman, *Exit, Voice, and Loyalty*.

13 Giuseppe Zaccaria, "You're Fired! International Courts, Re-contracting, and the WTO Appellate Body during the Trump Presidency," *Global Policy*, Vol. 13, No. 3 (2022), pp. 322–33.

14 Here we integrate the framework developed in Jupille, Mattli, and Snidal, *Institutional Choice and Global Commerce*.

15 Jupille, Mattli, and Snidal, *Institutional Choice and Global Commerce*.

16 *Ibid*., p. 7.

17 *Ibid*., p. 10.

simultaneously, and China represents a clear example of this.[18] As a result, varying combinations and sequences of these measures are likely to lead to different outcomes in terms of the institutional response. For example, inside change behaviours of voice and obstruction/innovation may precede selection or creation of alternative institutions, or it may be combined simultaneously with them or indeed follow them.

In exploring China's approach to changing international institutions, Ikenberry and Lim describe a spectrum of available institutional choices which range from simply participating in existing institutions, to seeking greater voice through reform to decision-making authority, to impeding the pursuit of unfavourable rules (obstruction), to building alternative rules (innovation) or new alternative institutions. In the most extreme scenarios, China has the option of outright obstruction or non-participation in existing institutions. The authors note that each of these strategies is not mutually exclusive.[19] As historical institutionalist insights suggest, the combination of strategies adopted and the timing and sequencing of the various elements of these strategies are likely to be important in determining outcomes that are the focus in this article.[20] Building on these insights in combination with the work on institutional change,[21] we use the case of China's dissatisfaction with dominant international development finance institutions to explore the consequences of the different combinations and sequences of these available options.

We begin from the intuition that states do not always follow a distinct path from least costly to most costly strategies but rather combine individual measures in ways that cause them to interact and impact the success of the overarching goal. The combination of approaches used is likely to be important in determining the success of the dissatisfied state in securing their goals. The case of China in development finance is particularly useful for evaluating this intuition. Development finance is an area in which there is substantial evidence that China is dissatisfied with the institutional status quo but only in recent years has it pursued strategies aimed at reform. Through analysing the official documents of the Chinese government, various international institutions, scholarly and NGO publications, in combination with interviews with current and former international institution employees, we explore the approach that China has pursued to achieve its objective of shifting the institutional status quo more in line with its preferences. We show that China has pursued measures in varying sequences and combinations and these strategies have sometimes interacted and reinforced one another, allowing China to secure many of its objectives.

China's Concerns in International Development Finance

China has implemented various measures in order to address its dissatisfaction with the incumbent MDBs. These measures match the categories described in the previous section: voice, obstruct/innovate, select, and create. More specifically, measures of voice include Chinese representatives' recurrent expressions of dissatisfaction with the banks' decisions and actions in the executive directors' meetings, board of governors' meetings, various committee meetings, and other conversations, formal and informal, with the banks' staff teams. In addition, when bank staff prepare country partnership plans and evaluations for

[18] Hongying Wang, "Regime Complexity and Complex Foreign Policy: China in International Development Finance Governance," *Global Policy*, Vol. 12, No. S4 (2021), pp. 69–79; Ikenberry and Lim, "China's Emerging Institutional Statecraft."

[19] Ikenberry and Lim, "China's Emerging Institutional Statecraft," p. 8.

[20] Kathleen Thelen, *How Institutions Evolve: The Political Economy of Skills in Germany, Britain, the United States, and Japan* (Cambridge: Cambridge University Press, 2004); Pierson, *Politics in Time*; Orfeo Fioretos, "Historical Institutionalism in International Relations," *International Organization*, Vol. 65, No. 2 (2011), pp. 367–99.

[21] Morse and Keohane, "Contested Multilateralism"; Jupille, Mattli, and Snidal, *Institutional Choice and Global Commerce*.

China, they often ask for the opinions of Chinese governmental and commercial stakeholders, civil societies, local experts, and other relevant individuals, whose dissatisfaction with the banks are also recorded. Whereas the Chinese representatives and stakeholders voice their dissatisfaction, China continues to participate in the banks' regular activities or even strengthens its participation to enhance its influence. The measures of obstruction/innovation include voting against the multilateral development banks (MDBs)' proposals at their executive directors' meetings, threatening to withdraw from bank activities, or initiating novel activities inside the MDBs that conflict with the banks' existing policies. In terms of select measures, China has utilised alternative existing institutions to secure its objectives in international development finance, which include addressing dissatisfaction with the incumbent MDBs. The "alternative" institutions are other multilateral development finance institutions that China either are member of or collaborate with as a non-member stakeholder, which include most of the main MDBs and funds in the world. China's bilateral development finance, that is non-concessional loans and aid and grants offered by the Chinese governments and domestic financial institutions for supporting development programmes abroad, is also part of the select options. Finally, the measures of creation refer to China's efforts in establishing and (co-)managing new multilateral institutions that have similar general functions, but different specific operational approaches compared to the World Bank and ADB. Among all, the Brazil, Russia, India, China, South Africa' (BRICS') New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB) are the two most remarkable achievements of such measures. To address its four primary dissatisfactions, China has used various combinations of inside and outside measures, deployed in different sequences and combinations. The subsequent section addresses each of the dissatisfactions in more detail.

Westernised and Interventionist Approach to Lending and Deployment of Environmental and Social Safeguards

China echoed developing countries' complaints about the World Bank's "coercive, top-down and non-participatory" conditionality, which treated recipient countries as unequal and inferior.[22] As China's borrowing from the Bank grew, its complaints increased in the mid-1990s and peaked in the mid-2000s. In particular, the Bretton Woods Institutions' use of policy conditionality, the policy adjustments borrowers/grant recipients needed to make in order to receive loans/grants, was often criticised for imposing austerity and privatisation policies that worsened the poorest people's welfare in recipient countries.[23] Furthermore, the World Bank's old environmental and social safeguards (ESS) policies, formed in the 1980s and 1990s in response to harmful impacts of Bank-financed projects, were widely criticised by developing countries. The safeguards imposed requirements on how borrowers were to design and implement projects in order to control their environmental and social impacts. The requirements concerned project measures such as environmental impact assessments, consultation with indigenous people, and resettlement and compensation plans. Borrowers had little say in the determination of such requirements. And the safeguards were applied

[22] Xiaohui Wu, "Friendly Competition for Co-Progressive Development: The Asian Infrastructure Investment Bank vs. the Bretton Woods Institutions," *Chinese Journal of International Law*, Vol. 16, No. 1 (2017), pp. 41–76; John Weeks, "Conditionality, Development Assistance and Poverty: Reforming the PRS Process," in Alberto Paloni and Maurizio Zanardi ed., *The IMF, World Bank and Policy Reform* (London: Routledge, 2006), pp. 265–75.

[23] Daniel Cabello, Filka Sekulova, and Douwe Schmidt, *World Bank and Conditionalities: Poor Deal for Poor Countries* (Amsterdam: A SEED Europe, 2008); Frances Stewart, "Should Conditionality Change?" in Kjell Havnevik ed., *The IMF and the World Bank in Africa: Conditionality, Impact and Alternatives* (Madison: University of Wisconsin Press, 1987), pp. 29–46.

uniformly across all borrowers, despite the latter's diverse legal systems and administrative capacities. Hence, the safeguards were accused of imposing on borrowers unsuitable normative values that were often derived solely from the western perceptions.[24]

Although China had greater policy autonomy than the other borrowers thanks to its large-borrower privilege and the Chinese authority's restrictions on receiving foreign assistance,[25] it sided with some other developing, especially middle-income countries (MICs) in condemning the World Bank's interventionist conditionality and stringent ESS. They considered the Bank's approach "risked putting poor countries at a competitive disadvantage in their catching-up integration into the global economy."[26] Accordingly, China has used various measures to push the World Bank to abandon its "dogmatist mentality" and to incorporate development countries' own experience into the Bank's lending requirement and ESS.[27]

China maintained a good collaborative relationship with the World Bank throughout the most of the 1990s, despite occasional conflicts regarding the Bank's interventionist lending approach and stringent ESS. However, one political incident caused a World Bank project to fall through in China and triggered Beijing's "anger" at the end of the 90s. It was a routine irrigation and voluntary resettlement project in China's Qinghai province. Soon after the Board approved the project, some pro-Tibet NGOs backed by the US Congress seized the project approval process as a campaign vehicle to protest against the World Bank under the slogan "World Bank Approved China's Genocide in Tibet."[28] The Bank decided to halt the project until 2000, when Beijing finally decided to withdraw it from the Bank. Beijing felt the Bank's procedures intervened its domestic politics and that in its "zero tolerance" in ESS politicised the Bank inappropriately. This jeopardised the Bank's relationship with China in the early 2000s and put a halt to its Country Partnership Strategy for China in the same period.[29] Meanwhile, Chinese representatives started to express its explicit dissatisfaction with the World Bank's lending and ESS approaches at various internal meetings. These were typical measures of voice. For instance, Zhou Xiaochuan, the then head of China's central bank, urged the World Bank to "listen more to the voice of the developing countries while adhering to the voluntary principle and the gradual approach." Similarly, Jin Renqing, China's then finance minister, called on the Bank for "giving full respect to ownership and diversity of client countries."[30] When the World Bank's Operations Evaluation Department conducted an evaluation of Bank assistance in China in the mid-2000s, the Chinese informants, including "all level of government," complained about the Bank's stringent safeguards and intrusive lending procedures, which caused additional costs and delays in project implementation. They also insisted that the Bank should adapt faster to China's unique circumstances and "show more respect for local capacity by using local consultants." However, the World Bank eventually decided that delegating the responsibility for safeguard policies to China would be premature, due to the multiple weaknesses in the

24 Philipp Dann and Michael Riegner, "The World Bank's Environmental and Social Safeguards and the Evolution of Global Order," *Leiden Journal of International Law*, Vol. 32, No. 3 (2019), pp. 537–59.

25 MDB managers in fact think the Chinese government has too many internal restrictions on their interactions with the MDBs, such as the cap on the loans for each bank and specific procedures of processing loans and Technical Assistance. Interview with a former ADB senior official (A1), Beijing, September 2019.

26 Jiajun Xu, *Beyond US Hegemony in International Development: The Contest for Influence at the World Bank* (Cambridge: Cambridge University Press, 2016).

27 Chinese governor's statement at the World Bank's 2005 annual board of governors' meeting. World Bank, "2005 Annual Meetings of the Boards of Governors Summary Proceedings September 24–25" (Washington, DC, 2005), https://documents1.worldbank.org/curated/en/212601468315282851/pdf/35949.pdf.

28 Robert H. Wade, "Accountability Gone Wrong: The World Bank, Non-Governmental Organisations and the US Government in a Fight over China," *New Political Economy*, Vol. 14, No. 1 (2009), pp. 25–48.

29 Interview with a former World Bank country director to China (B1), Washington, DC, October 2019.

30 World Bank, "2005 Annual Meetings of the Boards of Governors Summary Proceedings September 24–25"; World Bank, "2004 Annual Meetings of the Boards of Governors Summary Proceedings 3 October 2004" (Washington, DC, 2004), https://documents1.worldbank.org/curated/en/888061468324278229/pdf/335811rev0pdf.pdf.

latter's safeguard design and implementation.[31] The Bank thus carried on with its lending practices and ESS without significant changes, whereas China strengthened its measures to push for reforms in the Bank's lending approach.

In the mid-2000s, China criticised the International Development Association (IDA)'s Country Policy and Institutional Assessment for imposing a common development model that favoured liberalisation and deregulation, which "could shrink the development space of late-comers in achieving structural economic transformation."[32] The Bank denied such accusations and continued to push for governance reforms in recipient countries. Under the then President Paul Wolfowitz, the Bank adopted an extremely stringent anti-corruption agenda. China, backed by other borrowers, threatened to suspend future borrowing to persuade the Bank to adjust its "punitive and arbitrary" anti-corruption investigations.[33] This was arguably the strongest pressure China had imposed to impel the Bank to drop its interventionist approaches. This obstructive measure was more costly and forceful than mere voice and generated pressure on the Bank for making internal changes.

In addition to these inside measures for challenging the World Bank's interventionist approach to lending and deployment of ESS, China's outside measures generated additional push for reforms. Firstly, China's bilateral development lending has increased rapidly in the past decade, especially since the launch of the Belt and Road Initiative in 2013. According to the above-mentioned definitions of institutional change measures, China's bilateral lending is a manifestation of selection, using alternative institutions outside the incumbent MDBs. The Chinese loans, known for "non-interference" and "no strings attached," differ considerably from those of the incumbent MDBs. Moreover, the Chinese-funded projects are often said to have less stringent measures for controlling the projects' environmental and social impacts.[34] These characteristics have made the Chinese fund more attractive to some developing country borrowers than that of the incumbent MDBs. Secondly, China led the establishment of two new MDBs, which were designed to adopt different lending approaches than the World Bank's interventionist one. The BRICS' NDB was founded in 2014 and the AIIB in 2015.[35] These establishments were manifestations of creation. The new MDBs were expected to generate competition effects on the World Bank and ADB. More specifically, some of the new banks' unique institutional features and functions differentiated them from the incumbent MDBs with regard to the issues of lending approaches and ESS.

The AIIB's architects regarded the politicised loan conditionalities a "deficiency" of the incumbent MDBs and determined to build the AIIB to be more "cooperative and less interventionist" to win over potential borrowers.[36] Although the AIIB borrowed much of its institutional design and regulations from the World Bank and ADB, it also opted for some remarkably different rules and practices on purpose. The AIIB's Operational Policy on Financing states that the Bank and its staff shall not "interfere in the political affairs of any

[31] World Bank, "China: An Evaluation of World Bank Assistance An Evaluation of World Bank Assistance" (Washington, DC, 2005), https://ieg.worldbankgroup.org/sites/default/files/Data/reports/china_cae.pdf.

[32] Xu, *Beyond US Hegemony in International Development*.

[33] Xu, *Beyond US Hegemony in International Development*; Catherine Weaver, *Hypocrisy Trap: The World Bank and the Poverty of Reform* (Princeton: Princeton University Press, 2008).

[34] Daniel R. Russel and Blake Berger, "Navigating the Belt and Road Initiative" (New York: Asia Society Policy Institute, 2019), https://asiasociety.org/sites/default/files/2019-06/Navigating%20the%20Belt%20and%20Road%20Initiative_2.pdf.

[35] Since the two banks were established around the similar time and that China played an important role in the design and construction of both banks, they are often included in the same category as China's tool for challenging the status quo of the international development finance regime. However, whereas both banks demonstrate the emerging economies' rising leadership in international development, they have different governance structures, lending priorities, and regional focuses. These differences are noted in this paper.

[36] Doron Ella, "Balancing Effectiveness with Geo-Economic Interests in Multilateral Development Banks: The Design of the AIIB, ADB and the World Bank in a Comparative Perspective," *Pacific Review*, Vol. 34, No. 6 (2020), pp. 1–32.

member" and that "only economic considerations be relevant to the Bank's decisions."[37] Thereby the AIIB does not require the borrower to address issues of "good governance," especially regarding democratisation and market reforms. Furthermore, instead of imposing rigorous lending conditions on the borrowers, the AIIB decides on the conditions, which can be modified and supplemented in the future, together with the borrowers.[38] Moreover, the AIIB's Environmental and Social Framework (ESF) allows borrowers to use their own ESS mechanisms in projects. In particular, if a project is deemed to have certain negative environmental and social impacts on the local community according to the Bank's ESF, the Bank would ask the client (i.e. local project operators) to make a detailed plan to minimise such impacts. The AIIB also requires the client to establish a grievance mechanism to handle the concerns and complaints of the local community that are negatively affected by the Bank-funded projects.[39]

In addition, the NDB and AIIB's lending procedures are arguably more sympathetic towards the borrowers' needs. For instance, both AIIB and NDB have sought to raise capital in local capital markets in order to lend in domestic currencies, thus minimising the borrowers' exchange rate risks. Finally, the AIIB and NDB's ESS and monitoring mechanisms are often more simplified than the World Bank and ADB's, although they have included many of the same elements borrowed from the latter. The AIIB streamlines its safeguards for social issues and runs a centralised project governance system.[40] In some cases, social issues were handled as a subset of an environmental process, incurring questions of whether social specialists were adequately involved in such processes. The NDB has squeezed its safeguards and simplified decision-making process even further in order to quicken the pace of delivery.[41]

Although the AIIB's non-interventionist approach has been criticised for lacking social accountability and its borrower-decided lending conditions for being ineffective, they do make the AIIB more popular among potential borrowers.[42] Both the World Bank and ADB sensed competition from the newly founded AIIB. Some subsequent reforms in their lending procedures and ESS could therefore be considered as a reaction to the competition from the new MDBs. One of the most remarkable reforms was the World Bank's new ESF issued in 2016, soon after the NDB and AIIB started to operate. The updated ESF could be viewed as a compromise resulting from an attempt to reconcile the interests of many, including the large borrowers (including China) that asked for more flexibility and autonomy as well as the Northern civil society organisations that called for stricter ESS.[43] During the Bank's consultation with multiple stakeholders for the new Framework, Chinese representatives suggested that developing countries were frustrated at the Bank's one-size-fits-all approach

[37] AIIB, "Operational Policy of Financing" (Beijing: AIIB, 2020), https://www.aiib.org/en/policies-strategies/_download/operation-policy/Operational-policy-on-financing-March-20-2020.pdf.

[38] AIIB, "General Conditions for Sovereign-Backed Loans" (Manila: AIIB, 7 December 2020), https://www.aiib.org/en/policies-strategies/_download/general-conditions/General-Conditions-for-Sovereign-backed-Loans_December_7_2020.pdf.

[39] Karin Costa Vazquez and Gregory T. Chin, "The AIIB and Sustainable Infrastructure: A Hybrid Layered Approach," *Global Policy*, Vol.10, No. 4 (2019), pp. 593–603.

[40] Jianzhi Zhao, Yannan Gou, and Wanying Li, "A New Model of Multilateral Development Bank: A Comparative Study of Road Projects by the AIIB and ADB," *Journal of Chinese Political Science*, Vol. 24, No. 2, (2019), pp. 267–88.

[41] Andrew F. Cooper, "The BRICS' New Development Bank: Shifting from Material Leverage to Innovative Capacity," *Global Policy*, Vol. 8, No. 3 (2017), pp. 275–84.

[42] Nicholas Watt, Paul Lewis, and Tania Branigan, "US Anger at Britain Joining Chinese-Led Investment Bank AIIB," *The Guardian*, 13 March 2015, https://www.theguardian.com/us-news/2015/mar/13/white-house-pointedly-asks-uk-to-use-its-voice-as-part-of-chinese-led-bank; Tetsushi Kajimoto, "Japan Split on Joining AIIB Bank, Caught between US, China," *Reuters*, 20 March 2015, https://www.reuters.com/article/us-asia-aiib-japan/japan-split-onjoining-aiib-bank-caught-between-us-china-idUSKBN0MG07Y20150320; Eugenia C. Heldt and Henning Schmidtke, "Global Democracy in Decline?: How Rising Authoritarianism Limits Democratic Control over International Institutions," *Global Governance*, Vol. 25, No. 2 (2019), pp. 231–54.

[43] Dann and Riegner, "The World Bank's Environmental and Social Safeguards and the Evolution of Global Order."

to borrowers and the onerous work required to fulfil the Bank's standards.[44] They pushed for more use of national environmental and social systems. South African representatives pointed out that a new framework with added requirements would make the Bank uncompetitive compared to the AIIB and NDB.[45] The new Framework ended up offering large borrowers more freedom to use the country system instead of the World Bank ESS in a wide range of issue areas, including labour and working conditions, resource efficiency, environmental pollution, climate change, and health and security of project-affected communities.[46] This decision was a significant achievement for China, whose proposal to use the country system was declined by the World Bank 10 years prior. Additionally, the World Bank increased flexibility and made standalone governance and institutional reforms more like an "optional component for large borrowers."[47] These reforms certainly do not indicate the World Bank's renouncement of "intervention," but they do verify the effectiveness of China's inside and outside measures.

To summarise the combination and sequencing of China's measures for securing change to the World Bank's interventionist lending approach and deployment of ESS, China first voiced its dissatisfaction while simultaneously applying inside pressure in the form of threatening to suspend borrowing to prevent the implementation of stringent anti-corruption measures. These inside measures occurred prior to outside pushes in the form of bilateral lending and simultaneous creation of the NDB and AIIB. As the literature on institutional responses would predict,[48] these outside measures of both selection and creation generated effective impetus for reforms, specifically in terms of large borrowers being granted more freedom to use the country system instead of the World Bank ESS in a range of issue areas. However, first obstructing further moves in an unsatisfactory direction for China ensured that the conditions for a favourable response to these outside measures existed.

Declining Resources for Infrastructure

Based on its own successful development experience, Beijing believes that enhancing infrastructure, including roads, bridges, railways, water supply, energy supply, and telecommunication, is the key to economic development. On the other hand, after decades of infrastructure financing, the World Bank and ADB had started to shift their lending priorities away from infrastructure to "poverty relief" and "good governance" and to seek to use development financing to instigate policy changes in the borrowing countries. This trend accelerated in the 1990s. In addition, the western creditors in these banks, especially the USA, increasingly objected to using the MDBs' limited resources to finance infrastructure projects in MICs like China and India. Although the ADB continued to consider infrastructure one focus of its lending programmes in the new millennium, they also emphasised the prominence of "appropriate soft infrastructure" and especially the policy environment and regulatory institutions, for inclusive growth and poverty reduction in Asia.[49]

[44] World Bank, "Review and Update of the World Bank's Environmental and Social Safeguard Policies Phase 3—Feedback Summary (China)" (Beijing: World Bank, 2015), https://consultations.worldbank.org/sites/default/files/consultation-template/review-and-update-world-bank-safeguard-policies/en/meetings/final_feedback_summary_for_phase_3_consultation_with_chinese_central_government_and_institutions_in_beijing_october_27.pdf.

[45] World Bank, "Review and Update of the World Bank's Environmental and Social Safeguard Policies Phase 3—Feedback Summary (South Africa)" (Pretoria, South Africa: World Bank, 2015), https://consultations.worldbank.org/sites/default/files/consultation-template/review-and-update-world-bank-safeguard-policies/en/meetings/feedback_summary_for_phase_3_consultation_with_south_africa_csos.pdf.

[46] Dann and Riegner, "The World Bank's Environmental and Social Safeguards and the Evolution of Global Order."

[47] Ali Burak Güven, "The World Bank and Emerging Powers: Beyond the Multipolarity-Multilateralism Conundrum," *New Political Economy*, Vol. 22, No. 5 (2017), pp. 496–520.

[48] Lipscy, "Explaining Institutional Change."

[49] ADB, "Infrastructure for Supporting Inclusive Growth and Poverty Reduction in Asia" (Manila: ADB, 2012), https://www.adb.org/sites/default/files/publication/29823/infrastructure-supporting-inclusive-growth.pdf.

China became increasingly critical of the incumbent MDBs' shift away from infrastructure. The Chinese governor of the World Bank and then Chinese finance minister requested at the World Bank's 1997 annual meeting that financing infrastructure in developing countries directly should continue to be a priority for the World Bank and other MDBs. He also considered that the World Bank's finance in infrastructure would help create an enabling environment for private sector participation.[50] However, the World Bank continued to drift away from infrastructure; the Bank's total urban infrastructure lending was smaller in the 2000s than in the previous decade.[51] China perceived this shift in the incumbent MDBs not only as a financial loss for developing countries, including itself, but also a denial of China's economic growth that was largely derived from infrastructure advancement.

Because of its own development experience, China proposed innovations to convince the two banks to continue to invest financial and intellectual resources into infrastructure. China proposed a number of infrastructure projects to be co-financed by the Chinese banks together with the World Bank or ADB starting from the late 2000s. More importantly, the Chinese government and policy banks also initiated various collaborative programmes with the incumbent MDBs that focused on infrastructure finance and project preparation, some more institutionalised than the others. For instance, the Export–Import Bank of China signed a memorandum of understanding (MoU) with the World Bank in 2007 and a 3-year agreement with the ADB in 2009 for collaboration in infrastructure projects in Africa and developing Asia, respectively.[52] In 2014, China, alongside several other G20 members, propelled the establishment of Global Infrastructure Facility, a global open platform aiming to facilitate infrastructure public–private partnerships, to be administrated at the World Bank. China was the second largest donor government of the Facility, after Japan, and other partners included Australia, Canada, Singapore, several MDBs, and private-sector investors. Furthermore, the Chinese Ministry of Finance propelled the collaboration between the China Development Bank and World Bank in creating the "Investing in Africa Forum" in 2015. The Forum was intended to be an annual gathering for representatives of the public and private sectors from China and Africa, international and continental institutions, development partners, and think tanks to promote investment opportunities in Africa, of which most were in infrastructure.[53] These initiations are manifestations of innovation according to the framework employed here. In these cases, China either proposed or initiated novel programmes in collaboration with the incumbent MDBs to persuade them to invest more in infrastructure.

Intensive outside measures for enhancing international infrastructure collaboration were also deployed, which eventually prompted the World Bank and ADB to increase infrastructure finance. China has released enormous funding for infrastructure through both bilateral lending and engaging with alternative existing MDBs since the early 2000s, in order to boost the global market for infrastructure. Multiple domestic Chinese financial institutions and especially the two large policy banks and several state-owned commercial banks have provided most of the capital for the infrastructure projects abroad. They also frequently co-finance with non-Chinese (development) banks. A large proportion of the big infrastructure projects are operated by the Chinese state-owned enterprises as the primary contractors.

[50] World Bank, "1997 Annual Meetings of the Boards of Governors Summary Proceedings September 23-25" (Hong Kong, 1997), https://documents1.worldbank.org/curated/en/201351468331792971/pdf/534320BR0board101Official0Use0Only1.pdf.

[51] Patricia Clarke Annez, Gwénaelle Huet, and George E. Peterson, "Lessons for the Urban Century Decentralized Infrastructure Finance in The World Bank" (Washington, DC, 2008), https://documents1.worldbank.org/curated/en/727961468313505758/pdf/446450PUB0Less101OFFICIAL0USE0ONLY1.pdf.

[52] Gregory Chin, "Two-Way Socialization: China, the World Bank, and Hegemonic Weakening," *Brown Journal of World Affairs*, Vol. 19, No. 1 (2012), pp. 211–30; Bretton Woods Project, "China and the World Bank," Bretton Woods Update, 14 September 2011, https://www.brettonwoodsproject.org/2011/09/art-568894/.

[53] World Bank, "World Bank and China Scale Up Support for Africa" (Washington, DC: World Bank, 16 May 2016), https://www.worldbank.org/en/news/press-release/2016/09/08/world-bank-and-china-scale-up-support-for-africa.

In terms of collaborating with alternative existing multilateral institutions, China was member of a wide range of MDBs before the NDB and AIIB were established, although it did not use these MDBs as a main platform for financing infrastructure abroad. These are typical measures of selection. Furthermore, China's create measures, and especially in establishing a MDB that dedicated to infrastructure financing, the AIIB, generated extra impetus for the incumbent MDBs to re-evaluate their infrastructure finance agenda. In addition to its regular lending, the AIIB also released a Strategy on Mobilizing Private Capital for Infrastructure in order to attract private investors to contribute to infrastructure projects and coordinate for their engagement. The Strategy aims for creating new markets for infrastructure in Asia and connected regions in the long run.[54] Unlike traditional MDBs, the AIIB clearly chose infrastructure in preference to social programmes as its business focus. As an MDB dedicated solely to infrastructure, the AIIB has more space and resources for advancing its policy-making, management process, and project preparation and implementation, specifically for infrastructure finance. This made the AIIB potentially more capable and competitive than other MDBs in infrastructure financing.

Since the AIIB started to operate in January 2016, the World Bank and ADB have indeed become more positive towards infrastructure and made genuine efforts to increase their infrastructure funding. At the ADB's annual meeting held in Frankfurt in May 2016, the governors of both Japan and the USA, two largest shareholders of the Bank, urged the ADB to continue to maintain its core function as an infrastructure-focused project finance bank.[55] The ADB's Strategy 2030, published in 2018, had considerably more emphases on infrastructure than its Strategy 2020, published in 2008. In the latter, infrastructure was listed as one of the five core operation areas, whereas in the former it was a key priority for the Bank. Both the World Bank and ADB signed MoUs with the AIIB soon after the latter were created, for strengthening cooperation in infrastructure. So far, a large amount of the AIIB projects have been co-financed with the World Bank and ADB. Moreover, nine MDBs, including the World Bank, ADB, AIIB, and NDB, announced a "MDB's Joint Declaration of Aspiration on Action to Support Infrastructure Investment" in 2016 and listed their quantitative and qualitative ambitions for improving infrastructure worldwide.[56] The declaration showed that the ADB sought to allocate 70% of its total lending to infrastructure development for 2016–2020, and the World Bank 35–50% (for an unstated period). In short, since both the World Bank and ADB have claimed to shift away from infrastructure towards social policy and governance reform programmes in the past 30 years, it is reasonable to conclude that its recent efforts to increase infrastructure funding are linked to Chinese measures.

The Chinese government was successful in securing the reforms that it sought on the issue of infrastructure resources. It utilised voice and innovation measures prior to utilising both select and create measures simultaneously. The innovations included the infrastructure co-financing between Chinese financial institutions and the World Bank/ADB and the numerous long-term infrastructure-centred programmes initiated by China and participated by the World Bank/ADB. The outside measures were China's bilateral overseas infrastructure finance, that is a measure of selection, and the AIIB's special set-ups for facilitating multilateral infrastructure finance, a create measure. The sequencing here is important because although some of its objectives were met as a result of select strategies (the use of alternative institutions and mechanisms), the Chinese government nonetheless pursued the more costly strategy of creation simultaneously and secured substantial reform as a

54 AIIB, "Strategy on Mobolizing Private Capital for Infrastructure" (Beijing: AIIB, 2018), https://www.aiib.org/en/policies-strategies/_download/mobilizing_private/Strategy-on-Mobilizing-Private-Capital-for-Infrastructure.pdf.

55 ADB, "Japanese Governor's Statement" (Frankfurt, 2016), https://www.adb.org/sites/default/files/annual-meeting/2015/statements/JPN_49thAM_GS-18.pdf?1462346468=; ADB, "US Governor's Statement" (Frankfurt, 2016), https://www.adb.org/sites/default/files/annual-meeting/2015/statements/USA_49thAM_GS-35.pdf?1462347443=.

56 Multilateral Development Banks, "MDBs Joint Declaration of Aspirations on Actions to Support Infrastructure Investment" (2016), http://www.g20.utoronto.ca/2016/mdbs-joint-declaration.pdf.

result. This provides evidence that simultaneous sequencing of select and create measures may be more effective at securing change more quickly than pursuing increasingly costly measures sequentially.

China's Limited Governance Power in the MDBs

China has complained about its limited governance power in incumbent MDBs since the mid-2000s. By this time, it had already showed great potential in becoming a future economic superpower. On the other hand, its decision-making power in major international economic organisations, such as the World Bank and IMF, was limited. Several other emerging economies and developing countries were also under-represented in these institutions. In 2005, the World Bank's Chinese governor requested at its annual meeting that both the World Bank and International Monetary Fund (IMF) should "reform their own governance structure, increasing participation of developing countries in decision making."[57] It was followed by more Chinese voices of dissatisfaction with the World Bank's unbalanced governance structure in the following years. They considered enhancing the voice of developing and transition countries (China included) in the Bank's decision-making a fundamental requirement for the Bank as a legitimate multilateral institution.[58] However, China's utilisation of voice did not result in any immediate governance reforms in the World Bank and despite China replacing Germany as the world's third largest economy in 2007, its then voting power in the World Bank remained below that of several small- or medium-size European countries.

However, the 2008 global financial crisis caused some changes in the Bank's internal power balance between developed and developing countries. Following the financial crash in 2008, the Bretton Woods Institutions faced larger borrowing requests. In order to boost lending, the IMF and World Bank needed to solicit more funding from their members, including developing countries. This particularly required financial support from the emerging economies that were not severely stricken by the crisis, including China and other BRICS countries. In response to the two institutions' request for financial support, the leaders of developing countries jointly demanded a larger governance role. This was an almost effortless coalition among the developing countries to propel for institutional reforms in the Bank and the Fund. Eventually in 2010, the World Bank announced that developing and transition countries' voting shares were to increase from 42.6 to 47.19%. Among all the developing and transition countries, China received the largest voting share increase, by 1.64%.[59] However, this reform was not implemented for several years to come. This was partially due to the Bank's inadequate administrative capacity in realising major institutional changes, but more because of the Bank's developed country members' reluctance to give away governance power.[60]

China continued to voice its discontent with the World Bank's inaction in governance reform in the following years.[61] The governance reform announced in 2010 was eventually implemented in 2016. The outside measures of selection possibly included China's attempt

57 World Bank, "2005 Annual Meetings of the Boards of Governors Summary Proceedings September 24–25."

58 World Bank, "2007 Annual Meetings of the Boards of Governors Summary Proceedings October 21–22" (Washington, DC, 2007), https://documents1.worldbank.org/curated/en/418031468339558664/pdf/450220BR0SecM210Box334039B01PUBLIC1.pdf.

59 Jakob Vestergaard and Robert H. Wade, "Still in the Woods: Gridlock in the IMF and the World Bank Puts Multilateralism at Risk," *Global Policy*, Vol. 6, No. 1 (2015), pp. 1–12; Jakob Vestergaard and Robert H. Wade, "Out of the Woods: Gridlock in the IMF, and the World Bank Puts Multilateralism at Risk" (Copenhagen, 2014), https://www.diis.dk/files/media/publications/import/extra/rp2014-06_gridlock-imf-wb_jve_wade_web_2.pdf.

60 James Raymond Vreeland, "Domestic Politics and International Institutions: Cooperation, Sacrifice, and Change," in Jennifer Gandhi and Rubén Ruiz-Rufino, eds., *Routledge Handbook of Comparative Political Institutions* (Oxon & New York: Routledge 2015), pp. 318–29.

61 World Bank, "2012 Annual Meetings of the Boards of Governors Summary Proceedings October 12" (Tokyo, 2013), https://documents1.worldbank.org/curated/pt/384001468331027508/pdf/800490BR0SecM2000PUBLIC00Box

to boost its influence in development via bilateral lending and/or enhancing its governance power in the existing alternative multilateral development finance institutions. And create measures can be seen in the establishment of the NDB and AIIB, in which China was the largest shareholder, jointly or alone. In terms of institutional selection, China boosted its strategic influence in international development by pouring enormous financial resource into the field through bilateral lending. This possibly supported China's voting power request in the World Bank. Nevertheless, China is a small shareholder in most of the MDBs other than the World Bank and ADB. For instance, as a non-regional member of the African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), and Inter-American Development Bank (IDB), China holds meagre voting shares in them: 1.443, 0.096, and 0.004% respectively.[62]

China's large shareholder role in both NDB and AIIB, however, quite possibly prompted the World Bank to implement the promised governance reform, by granting China more voting power, in order to keep China on board as well as to strengthen its own legitimacy. In the NDB, China holds the same voting share (19.42%) as all the other four BRICS countries.[63] This created an equal forum for all the emerging powers involved and consequently a much more pleasant political environment for them too than that in the World Bank. Meanwhile, as the largest shareholder of the AIIB (with 26.59% of total voting power), China preserves a dominant influence and veto power. By utilising its veto power, Beijing can shape the Bank's key institutional issues, including increasing the bank's capital, changing the capital subscription of a member, expanding operations, changing the structure of the Board, appointing or removing the President, and terminating the Bank and distributing its assets.[64] China can also shape the Bank's decision-making through informal channels, which is made easier due to the location of the Bank's headquarters (in Beijing). That being said, Beijing's influence is still somewhat constrained, as it cannot unilaterally decide on matters such as procurement or project selection.

When the World Bank governance reform was implemented in 2016, China became the Bank's third largest single state member by voting share (5.33%), ranked after the USA (15.79%) and Japan (7.44%). However, its voting power was still low when compared to the size of its economy and counted by constituencies in the four World Bank organisations: International Bank for Reconstruction and Development (IBRD) (5th), IDA (22nd), International Finance Corporation (IFC) (19th), and Multilateral Investment Guarantee Agency (22nd).[65] China is also the third largest state member in the ADB, although its voting share (5.5%) falls far behind that of both Japan (12.8%) and USA (12.7%).[66] This means China's official decision-making power in the ADB's Board of Directors is considerably weaker than the latter two. Moreover, it appears that the prospects for improving this position are not encouraging. The World Bank will remain USA-led and the ADB Japan and USA co-led. Their leadership is further consolidated by the convention that the president of World Bank would always be an American and ADB Japanese.

China has thus continued to be dissatisfied with the World Bank's governance structure since 2016. Although China's strategic influence in the international development regime

379799B.pdf; World Bank, "2013 Annual Meetings of the Boards of Governors Summary Proceedings October 11-12" (Washington, DC, 2013), https://doi.org/10.2134/csa2013-58-8-7.

62 "AfDB-Statement of Subscription and Voting Powers as at 28 February 2021", AfDB, 17 May 2021, https://www.afdb.org/en/documents/afdb-statement-subscription-and-voting-powers-28-february-2021; "Capital Stock and Voting Power", IDB, https://www.iadb.org/en/about-us/capital-stock-and-voting-power; "China: EBRD Shareholder Profile", EBRD, https://www.ebrd.com/who-we-are/structure-and-management/shareholders/china.html.

63 Each of the five BRICS countries initially had 20% of voting share when the NDB was newly founded. Later on, the admission of Bangladesh and UAE into the Bank slightly diluted the BRICS countries' voting share.

64 Ella, "Balancing Effectiveness with Geo-Economic Interests in Multilateral Development Banks."

65 "Allocation of Votes by Organization," World Bank, https://www.worldbank.org/en/about/leadership/votingpowers.

66 ADB, "Annual Report 2015: Members, Capital Stock and Voting Power" (Manila: ADB, 2015), https://www.adb.org/sites/default/files/institutional-document/218696/oi-appendix1.pdf.

has continued to grow via bilateral lending and (co)leading the NDB and AIIB, it has not deployed any strong inside measures, in the form of obstruction/innovation rather than voice, to propel further governance reforms in the World Bank. This was probably because of the discouraging prospects for such reforms mentioned above. As a result, no governance reforms have been made since 2016. The Bank's most recent Shareholding Review, finalised in 2020, suggested no change to the Bank's shareholding structure. China remained one of the most severely under-represented member state in the World Bank according to the Review.[67] Consequently China's finance minister commented at the Bank's 2021 Annual Meeting, "China is deeply disappointed that the 2020 Shareholding Review concluded with no result due to political factors. China urges all parties to act in good faith to jointly promote the review in 2025 to achieve concrete outcomes, making the WBG governance structure more balanced and effective…and increasing the voice and representation of developing countries as a whole."[68]

Because moves to obstruct/innovate create zero-sum dynamics when it comes to structural changes to traditionally western-dominated institutions, the options for China were limited here. The World Bank responded primarily to the exogenous shock of the 2008 financial crisis when conducting governance reform and eventually only implemented the long-delayed governance reforms in 2016, partially in response to the establishment of NDB and AIIB, respectively, in 2014 and 2015. Furthermore, no substantial obstruction/innovation measures have been deployed by China in the World Bank since 2016, the Bank's governance structure has remained the same despite China's continuously strengthening outside measures. As a result, China remains dissatisfied with its limited governance power in the World Bank.

(Developed) Donor-dominated Institutional and Operational Set-ups

China has long been sceptical about the donor-dominated institutional and operational set-ups in the World Bank. When China was still an IDA recipient, it was aggrieved at the IDA donor forum, composed of representatives of donor governments at IDA replenishment negotiations, bypassing the Executive Board in the formal governance procedures of the World Bank. For example, the USA effectively threatened to reduce or withhold contributions to the IDA in order to demand policy changes at the Association and the rest of the Bank.[69] In contrast, the recipient countries had little influence in the policymaking of IDA. The donor-driven policy prescriptions were also partly applied in the rest of the World Bank and therefore the MIC borrowers of IBRD had to comply with some policy conditions set by IDA Deputies.[70] Some of these conditions were contentious; for example, the "basic needs" approach that narrowly focused on direct poverty reduction instead of economic growth as the long-term driving force for poverty alleviation. As a result, financing to boost long-term growth, such as that for infrastructure, was severely compromised.[71] In addition, China was particularly bitter about some IBRD net income, which could otherwise be used to reduce borrowing cost of IBRD borrowers, being transferred to IDA to finance projects

[67] World Bank, "Development Committee 2020 Shareholding Review: Report to Governors at the Annual Meetings" (Washington, DC, 2020), https://www.devcommittee.org/sites/dc/files/download/Documents/2020-09/FinalDC2020-0009Shareholding.pdf.

[68] World Bank, "Statement By The Hon. Kun Liu, Governor of the Bank for The People's Republic of China, WBG Governor's Statement No. 6, October 14" (Washington, DC, 2021).

[69] Ngaire Woods, *The Globalizers: The IMF, the World Bank, and Their Borrowers* (Ithaca: Cornell University Press, 2007).

[70] Xu, *Beyond US Hegemony in International Development*.

[71] Jiayi Zou and Xiaolong Mo, "Analysing the Globalisation Paradoxes and the Role of Development Assistance from the Perspective of Policy Changes in the World Bank," *World Economics and Politics*, No. 1 (2002).

in low-income countries. In this way, the wealthy industrialised countries, shared the "burden" of assisting low-income countries yet without granting MICs any governance power at the IDA's policy decisions.[72]

At the Bank's 2007 Annual Board of Governors meeting, the Chinese Alternate Governor advocated for reforming the developed donors-led decision-making process of IDA. He explained that since the IBRD and IFC had significant amount of net income transferred to IDA, the developing members had become the de facto contributors to IDA, and therefore they should fully participate in the policymaking of IDA.[73] Soon after the Chinese representative voiced his dissatisfaction with the IDA's donor-dominated set-ups, China became a new donor in IDA-15 in 2007. Through this move, China hoped to gain more official influence at the IDA, although it risked contradicting its self-proclaimed identity as a developing country and undermining China's solidarity with the recipient countries. Furthermore, China increased financial support for IDA-16 as the Bank management proposed an innovative contribution scheme that kept a fairer burden-sharing balance between traditional donors and China.[74] China did not deploy any strong measures of obstruction/innovation to push for the kind of reforms it desired inside the IDA. The Chinese negotiators at the IDA rarely engaged in policy debate, partially because of China's inadequate research capacity in international development.[75]

Neither did China's outside measures generate effective impetus for reforms in the IDA's institutional and operational structure. China has dispersed aid to a wide range of developing countries through the Export–Import Bank of China and the Department of Foreign Aid under the Ministry of Commerce, which became independent in 2018 under the name "China International Development Cooperation Agency." Unlike the members of the Organization for Economic Cooperation and Development's Development Assistance Committee, China usually offers aid with few attached requirements for social and political reforms in the recipient countries. The endorsement of "one-China policy" instead is the most prominent political requirement for receiving the Chinese aid.[76] On the other hand, several recent studies show that the gap between the Chinese and western-backed aid is smaller than conventionally perceived. The former is neither more self-interest driven nor more recipient needs oriented.[77] Therefore, the Chinese aid may turn out to be more popular to certain recipients because the low political requirement, its general purpose, determinants, and motives are not fundamentally different from that offered by the western countries. Furthermore, aid is a small part of China's overseas development finance, of which the large majority are non-concessional or less-concessional loans. China maintained a 31-to-1 ratio of loans to aids between 2013 and 2021.[78] All things considered, China's bilateral aid, that is a measure of selection, is unlikely to have generated strong competitive effect on the incumbent MDB's aid and grant programmes.

Moreover, in contrast to the World Bank and other traditional regional development banks, the NDB and AIIB do not have a concessional financing window,[79] which is often

72 Xu, *Beyond US Hegemony in International Development*.

73 World Bank, "2007 Annual Meetings of the Boards of Governors Summary Proceedings October 21–22."

74 *Ibid*.

75 *Ibid*.

76 Axel Dreher et al., "Apples and Dragon Fruits: The Determinants of Aid and Other Forms of State Financing from China to Africa," *International Studies Quarterly*, Vol. 62, No. 1 (2018), pp. 182–94.

77 Axel Dreher, Peter Nunnenkamp, and Rainer Thiele, "Are 'New' Donors Different? Comparing the Allocation of Bilateral Aid Between NonDAC and DAC Donor Countries," *World Development*, Vol. 39, No. 11 (2011), pp. 1950–68; Anke Hoeffler and Olivier Sterck, "Is Chinese Aid Different?" *World Development*, Vol. 156 (2022), p. 105908.

78 Ammar Malik et al., "Banking on the Belt and Road: Insight from a New Global Dataset of 13427 Chinese Development Projects" (Williamsburg: AidData at William & Mary, 4 October 2021), https://www.aiddata.org/publications/banking-on-the-belt-and-road.

79 The AIIB has a Project Preparation Special Fund solely to finance technical assistance for project preparation in the poorest borrower countries.

used to influence the poorest countries' social policies but usually not profitable. The bank officials emphasised the AIIB's profit-minded nature and confirmed in the interviews conducted in 2019 that the AIIB had no plan for starting concessional lending for the near future.[80] Therefore, the newly created MDBs do not represent effective outside pressure on the World Bank for reducing the donor domination, and consequently opportunities for competitive institutional creation are practically non-existent to resolve the structural issue of donor domination. As a result, the IDA remains heavily donor-dominated, and China is still dissatisfied and at the 2019 Annual World Bank meeting, the Chinese governor urged the World Bank to "take a prudent and step-by-step approach on IDA voting rights review…The result of voting rights allocation should reflect the concerns and interests of all parties in a balanced way, protecting the interests of recipient countries while safeguarding sufficient incentives for donors, especially emerging donors."[81]

On the issue of donor domination of the World Bank then, the Chinese government has utilised the inside measure of voice, expressing its discontent while becoming a donor in IDA-15 which, it was hoped, would increase its influence. However, opportunities for obstruction/innovation were very limited and few effective outside measures were adopted on this issue, only marginally with respect to bilateral aid. This suggests that when weak inside measures are combined with only meagre outside competitive pressures, little meaningful reform occurs. As with China's dissatisfaction on governance power, opportunities to obstruct or innovate are limited because of the zero-sum dynamics created by institutional reform in existing institutions.

Understanding the Combination and Sequencing of Chinese Measures

What conclusions can be drawn about the impact of the combination and timing of different change measures adopted by China in securing reforms to development finance institutions? The four preceding cases demonstrate that China has sometimes utilised the full range of options available to it to address its dissatisfactions with different aspects of the international development finance regime. At times it has voiced its dissatisfaction within the existing arrangements, at others it has gone further to obstruct or innovate to secure the changes it seeks. In many instances China has also utilised the selection and creation of alternative institutions simultaneously to secure its objectives.

When it came to *challenging the interventionist approach of the World Bank* and the application of ESS, the simultaneous inside measures of voicing dissatisfaction while threatening to suspend borrowing were important in creating the conditions for a more favourable response to the subsequent outside measures pursued by China. The blocking of unfavourable anti-corruption measures and the departure of the bank president meant that when China selected alternative outside mechanisms such as greater bilateral lending in the form of Belt and Road Initiative and supporting the creation of the NDB and AIIB, there were more favourable internal conditions. With China's less stringent conditions on bilateral lending and with the AIIB's ESF mechanism allowing borrowers to use their own environmental and social standards in projects, this competition was one of the factors that eventually led the World Bank to adopt changes that were rejected just a decade earlier. The World Bank allowed borrowers more freedom to apply their country system instead of the Bank's ESS in a number of issue areas and was more flexible in the application of

[80] Interviews with two AIIB senior officials (C1 and C2), Beijing, September 2019.

[81] World Bank, "Statement by the Hon. Jiayi Zou, Alternate Governor of the Bank for the People's Republic of China", WBG Governor's Statement No. 15, October 18 (Washington, DC, 2019), https://www.worldbank.org/content/dam/meetings/external/annualmeeting/GS1915-China-E-Final.pdf.

governance and institutional reforms.[82] While it used the dominant institutions in parallel with the available alternatives, simultaneously Beijing did not stop pushing for reforms internally at the World Bank. It sided with MICs and developing countries to condemn the Bank's interventionist conditionality and stringent ESS policies, criticised IDA's Country Policy and Institutional Assessment procedures, and even threatened to suspend future borrowing to persuade the Bank to adjust its "punitive and arbitrary" anti-corruption investigations. The creation of AIIB, an institution that performed some of the same functions as existing multilateral development finance institutions, led to an international development finance regime that was less functionally differentiated and more competitive than before. The success seen by China in this case, therefore, provides some empirical support for the contention that attempts at reform are more likely to succeed in regime complexes characterised by lower degrees of functional differentiation.[83] As a result of the creation of AIIB, the leverage of the World Bank on borrower countries was reduced due to outside options provided by China. The World Bank also changed policy to allow borrowers to use the country system instead of the World Bank ESS in the areas of labour and working conditions, resource efficiency, environmental pollution, climate change, and health and security. On this issue, the sequencing of first pursuing simultaneous inside measures of voice and obstruct/innovate prior to the utilisation of outside options ultimately led to success in securing reforms.

In pushing for *more focus on infrastructure spending* China was also successful. Whilst continuing to increase its involvement in existing institutions and channelling lending through alternative MDBs and bilateral lending, China's outside measures in the form of the AIIB had an effective impact. More funding was eventually released for infrastructure by the World Bank and ADB. Later, nine MDBs, including the World Bank, ADB, AIIB, and NDB, announced a "MDB's Joint Declaration of Aspiration on Action to Support Infrastructure Investment" in 2016. As with the previous case, China first pursued inside measures but initially voice only. Without simultaneous inside change measures China's complaints in the late 90s and early 2000s were ineffective and infrastructure spending continued to decline over this period. Subsequent innovation measures were deployed with China proposing a number of infrastructure projects to be co-financed by the Chinese banks together with the World Bank or ADB from the late 2000s onwards. This culminated in innovations such as an MoU with the World Bank in 2007, an agreement with the ADB in 2009 for infrastructure projects in Africa and Asia, and the creation of the Global Infrastructure Facility in 2014. The subsequent outside measures in the form of increased bilateral infrastructure spending and utilisation of alternative MDBs and with the creation of AIIB, an institution focused on infrastructure spending, beginning operation in January 2016, the World Bank and ADB made genuine efforts to increase their infrastructure funding. We can conclude on the issue of infrastructure spending then that China succeeded by pursuing inside measures first, but it was only when voice and innovation were pursued together, in the form of the MoU with the World Bank and the agreement with ADB on Infrastructure spending, that real progress was achieved. When subsequent outside options became available in the form of AIIB, structures for cooperation already existed and so meant that the institutional response to the potentially competitive institutions could be more accommodating.

Next, China's dissatisfaction about its *limited governance power* showed more limited success. From the early 2000s Chinese diplomats voiced their dissatisfaction but without other accompanying inside or outside measures. It was only after 2008 reform occurred following the global financial crisis that there was some limited progress on voting shares. However, this was only later implemented following the use of outside measures in terms

[82] Güven, "The World Bank and Emerging Powers."
[83] Thomas Gehring and Benjamin Faude, "A Theory of Emerging Order within Institutional Complexes: How Competition among Regulatory International Institutions Leads to Institutional Adaptation and Division of Labor," *Review of International Organizations*, Vol. 9, No. 4 (2014), pp. 471–98; Lipscy, *Renegotiating the World Order*.

of selecting and creating alternative institutions where China possessed greater governance power. The limited success in this case can be seen in that although China became the World Bank's third largest single state member by voting share in 2016 and third largest state member in the ADB coinciding with the creation of AIIB, Beijing's voting share still falls far behind that of Japan and the USA. The outside options of utilising alternative institutions are less compelling when it comes to structural matters such as voting share as the alternatives are unable to replicate the influence of the existing institutions on a short time horizon.

Finally, Chinese dissatisfaction with *donor dominated institutional and operational set-ups* showed that weak inside measures were insufficient to secure any of the desired changes. On this issue inside measures of voice were employed and only weak outside measures were subsequently adopted in the form of bilateral aid. This was the least successful change sought by China, and its aim in this case is more complex because while the bilateral lending mechanism offers an outside option for both China and developing country recipients, the existence of such outside option has not translated directly into the dilution of influence of donors in existing institutional set-ups. This is because the role of donors is fundamental to the operation and structure of the World Bank and ADB and as such is hard to shift even where outside options exist. This suggests that even within the same issue area, the impact of institutional competition can vary depending on the issue at stake and suggests an important qualification to existing theories on the role of outside options in driving institutional change.[84]

Conclusions can be derived by directly comparing China's approach in these four cases. In terms of the dissatisfaction with the World Bank's interventionist approach, China utilised voice and obstruct/innovate by threatening to suspend future borrowing and then later outside measures of select, in the form of bilateral lending, alongside creation measures, in the form of AIIB. With declining infrastructure spending China utilised voice and obstruct/innovate measures through innovations such as the Investing in Africa Forum. Later it employed outside measures of select in the form of bilateral lending and utilisation of other MDBs, simultaneously it engaged in creation through the AIIB. Moving to the structural dissatisfactions and specifically governance power, China utilised voice and then subsequently select in the form of bilateral lending. This occurred alongside the creation of the NDB and AIIB. No obstruction/innovation measures were adopted. Finally, in terms of dissatisfaction around donor domination of the existing institutions, China utilised voice and then weak selection in the form of bilateral aid. Again, obstruction/innovation measures were not adopted.

Implications for Institutional Change

As outlined in "Available Options for Institutional Change" section, the options available to dissatisfied states to achieve their objectives are well understood thanks to research on institutional choice, but the impact of different combinations and sequences of these options has been less well explored. Consequently this article has not attempted to offer an alternative framework to existing typologies of change measures. Instead it has sought to synthesise existing insights and take steps towards showing how combination and timing of these measures may contribute to the success or failure of dissatisfied state's attempts to secure their objectives.

The cases suggest three conclusions. First, internal obstruction/innovation measures are important in creating more favourable conditions for subsequent outside measures. Second, the finding that in the two structural dissatisfaction cases obstruction/innovation was neglected suggests that these measures are harder to deploy when it comes to driving structural changes in institutions already dominated by developed states. In such cases the measures of select and create are likely to be more effective for dissatisfied states to pursue

84 Lipscy, *Renegotiating the World Order*.

prior to any obstruction/innovation attempts. Third, inside pressure alone is less effective in securing reforms. Subsequent outside measures are helpful but are most effective following inside measures which create more favourable conditions for more accommodating institutional responses.

There are also broader implications for institutional choice: First, for dissatisfied states pursuing reforms, adopting inside measures of voice and obstruct/innovate initially are important because they can create more favourable conditions for the subsequent pursuit of more costly outside measures if the latter are needed. This can be seen in the change in the World Bank's ESS approach and greater cooperation on infrastructure spending. Second, it is clear that the measures pursued by China are often simultaneous rather than entirely sequential and do not always progress from least costly to most costly measures in a linear fashion.[85] Third, where China has pursued all four approaches of voice, select, obstruct/innovate, and create, adopting inside measures prior to outside measures has seen success. Specifically, China's dissatisfaction with the interventionist approach to loans and ESS of the World Bank and ADB and its dissatisfaction with the lack of financial resources devoted to infrastructure projects are areas where it has adopted this sequencing and are also the areas in which most substantial change has occurred. The cases suggest that pursuing obstruct/innovate measures in particular are problematic where dissatisfaction relates to structural institutional matters rather than policy matters. In the case of governance power it seems that exogenous factors such as the global financial crisis were much more important in driving reform than the measures pursued by China and other states.

Specifically in terms of China, its strategy of creating but still using existing institutions results from Beijing's hope to collaborate with the World Bank and ADB to maintain its "developing country status" and stay close to developing countries; it also does not want to stand out as the leader of "a new camp" against the USA-led World Bank and ADB. China's pursuit of different measures has allowed it to avoid confrontation while also leading to important changes in the broader development finance regime. The preceding analysis demonstrates some of these key elements of China's institutional approach in the last decade. In the case of the World Bank and the establishment of AIIB, whilst the World Bank has demonstrated some institutional flexibility in responding to China's dissatisfaction with its relative influence in the institution, China's role is structurally limited by the retention of veto power by the USA and European Union and China's informal power in the bank remains limited in comparison the Bank's western founding members and major donors.

In drawing these conclusions, a number of caveats should be noted: First, changes in the international development finance regime clearly have not solely depended on the behaviour of China. During the time period discussed significant changes were occurring in the global economy more broadly and so a range of pressures were acting on existing arrangements. The case of governance reform and the impact of the financial crisis demonstrate this most clearly. Second, because of the size of its economy, China has greater resources to adopt the kinds of simultaneous measures to secure its goals than other dissatisfied states. Consequently, some sequences of measures, particularly those that incorporate create or even select (in the form of bilateral measures in particular), are not viable options for all states. Fourth, development finance is an issue area where a range of outside options exist for states such as China; this is not the case in all issue areas.[86] In some areas the cooperation problem might be fundamentally different, particularly where the creation of new institutions can create zero-sum dynamics or lack broader support. This can be seen for example in the proposed but unsuccessful creation of the BRICS credit rating agency.[87]

85 Jupille, Mattli, and Snidal, *Institutional Choice and Global Commerce*.
86 Lipscy, "Explaining Institutional Change."
87 Eric Helleiner and Hongying Wang, "Limits to the BRICS' Challenge: Credit Rating Reform and Institutional Innovation in Global Finance," *Review of International Political Economy*, Vol. 25, No. 5 (2018), pp. 573–95.

While there is a need for further research on sequencing of strategies in different issue areas, this article makes two contributions: First, it highlights that the sequencing and combination of measures is an important part of the story when it comes to explaining changes in the international development finance regime and outlines which strategies are likely to be the most successful. Second, it suggests the conditions under which these findings are likely to apply more broadly by exploring the interactions between the measures pursued by a dissatisfied state, the structure of an issue area, and the nature of the reform that is being pursued. By developing a framework for understanding these factors and by building on existing understandings of the options available to dissatisfied states, these findings can contribute to a better understanding of changes in global economic governance and the likelihood of success of challenges to existing institutions in future.

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