Two-Way Socialization: China, the World Bank, and Hegemonic Weakening

GREGORY CHIN
Associate Professor
York University

There was a time when it made a lot of sense to envision China’s interaction with the global financial institutions as “socialization,” or a process in which China internalized global norms through its participation in international institutions. The scholarship on Chinese learning and socialization provided important insight on how China, specifically Chinese officials, were socialized into or came to internalize the group norms of behavior that characterize the International Monetary Fund (IMF), the World Bank, and the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) during the 1980s and the 1990s. This article suggests, however, that China’s relationship with the World Bank is undergoing a gradual but marked shift, a process that has been in motion since the early 2000s. China is no longer only learning the established process and rules of the global institution and adapting itself to them, but is also actively working to move the Bank beyond some of its established endogenous norms and practices. This study suggests that we are seeing the beginnings of two-way socialization in the relationship between China and the World Bank.

This article examines how China is starting to socialize the World Bank under the auspices of implementing the “Memorandum of Understanding (MOU) on Cooperation between the Export–Import Bank of China and the International Bank for Reconstruction and Development,” signed in April 2007. Here, China succeeded in overcoming the reluctance of the Bank to agree to new procedures that mean working with China as a co-donor as opposed to its

GREGORY CHIN is Associate Professor in the Department of Political Science and Faculty of Graduate Studies at York University in Canada. He also serves as China Research Chair and Senior Fellow at the Centre for International Governance Innovation. He holds a fellowship at the Center on International Political Economy at Peking University.

Copyright © 2012 by the Brown Journal of World Affairs
established rule of having bilateral (national) donors line up behind the Bank. Other bilateral donors had long become accustomed to following the lead of the Bank when developing a multidonor lending package involving the World Bank. China was unwilling to subordinate itself to the Bank on cofinancing arrangements to Africa, for example. China is also pushing the Bank to accept new operational norms by building new consensus with the Bank on “appropriate levels of concessionality” in the loan packages that are to be cofinanced by China and the Bank, under the terms of the MOU.

This article offers two related empirical findings. First, that a different institutional actor on the Chinese side, specifically, the Export–Import Bank of China (China Eximbank) has been assigned to partner with the World Bank for the donor cooperation efforts. China Eximbank is one of China’s powerful state policy banks. Its representatives are leveraging the Chinese state’s growing economic clout and national financial capacities to reestablish the country’s relationship with the World Bank on new footing. This change in the mix of Chinese partners has altered the nature of China’s engagement with the World Bank. Relations are evolving from traditional donor–recipient arrangements to a hybrid scenario where China and the Bank work together as co-donors, even while the Bank continues to lend to China.

Second, the endogenous changes in the norms and rules of the World Bank are linked and even preconditioned by important changes in exogenous conditions—external pressures related to the development of Chinese options “outside” of the World Bank. First, China has emerged dramatically as a creditor over the past decade and a rising (net) donor, especially in Africa, the Americas, and other areas of the Global South. The Chinese approach to development finance is not only different from that of the Organization for Economic Cooperation and Development’s Development Assistance Committee (OECD–DAC) regime, but it also undercuts the influence of the World Bank in some cases of potential lending. Second, China’s leaders have supported the enhancement of the role of multilateral development finance mechanisms at the regional level, in Asia, Africa, and the Inter-American region. These institutions, at a minimum, offer complimentary alternative options for development financing and could turn into default options if conditions necessitate. These agent–structure realignments, residing outside of
the endogenous China–World Bank relationship, represent a loosening of exogenous constraints—a weakening of international hegemony—that also previously reinforced the established international norms during the 1980s and 1990s.

**Rethinking Socialization**

It is useful to locate China’s evolving relationship with the World Bank within a broader and gradual yet marked shift in China’s stance toward the Bretton Woods institutions since the early 2000s. For example, after acceding to the World Trade Organization (WTO) in December 2011, Beijing has been quietly active in advancing reforms there, initiating proposals to modify and change some of its rules, rule-making procedures, and dispute settlement mechanisms. At times, China has spoken on behalf of “developing country interests.” When pressured to join the bloc of the traditional trading powers, it has usually chosen to respond by demarcating its national interests as distinct from those of the advanced economies and, in fact, unique to China.

China has also been a consistent advocate for fundamental reform of the International Monetary Fund and the global financial and monetary system over the past decade, drawing attention to its notable inadequacies. The calls for systemic reform intensified and became more elaborate in technical details during the global financial crisis of 2007 to 2009. The clearest statement was the 23 March 2009 speech by Chinese central bank governor Zhou Xiaochuan entitled “Reflections on Reforming the International Monetary System.”

Chinese central bank authorities actually started to push for policy reorientation and institutional reforms to the international monetary system beginning in April 2002 at the spring International Monetary and Financial Committee meeting, when People’s Bank of China (PBOC) governor Dai Xianglong called on the IMF to tighten its surveillance on “major developed countries,” whose current account imbalances were generating financial and exchange rate instability. Then in spring 2003 Li Ruogu, assistant governor of PBOC, called again for the IMF to shift its attention from dispensing advice to developing countries—especially those achieving success in development—to focusing instead on “tightening its surveillance of the macroeconomic and financial policies of the major industrialized countries.” Li further added that the establishment of a “new equitable and reasonable economic and financial order” was urgently needed. These calls for reform went unheeded by the G7 finance group. Undaunted, Beijing heightened its calls for systemic reforms amid the global financial crisis. Through the newly elevated G20 Leaders pro-
cess, Chinese authorities started to cooperate and coordinate with the BRICS (Brazil, Russia, India, China, and South Africa) nations to push for reforms to representational arrangements in the Fund, equally important changes to the lending practices and policy preferences of the IMF, and the economic policy norms that the Fund promotes globally.6

This shift in China’s stance toward the Bretton Woods institutions, starting in the early 2000s, represents a departure from its previous behavior within these institutions from the early 1980s to the late 1990s when it focused on learning, and then largely internalizing, the international norms of the global institutions. Pearson describes how the “People’s Republic,” after resuming “China’s” membership in the IMF, the World Bank and the GATT/WTO, basically accepted the norms, principles, and rules of the multilateral economic institutions and operated more or less within the rules.7 Pearson argues that China acted like a status quo power in relation to the major multilateral economic institutions, preoccupying itself mainly with “learning” the norms and rules of the game.8 In a book-length study, Social States, Johnston further develops the analyses on China’s socialization through fine-grained examination of microprocesses of Chinese participation in international institutions from 1980 to 2000. He argues that Chinese social interaction in international relations affected China’s perceptions of its interests in such a way as to change its behavior. Chinese diplomats, strategists, and analysts came to internalize the normative structures that constitute the world political system.9 Johnston showed how the internalization of particular normative structures at the international level had a constraining effect on a rising China as national actor. In the aforementioned scholarship on socialization, “exogenous conditions” are held constant as a constraint on international behavior and defined ultimately by international anarchy.

But what if China has evolved beyond a “rising” power, already has the relative power capabilities of a great power, and is looking to project some of these power capacities to reshape some international norms and rules? What if the exogenous condition that theorists of socialization have held constant was actually a world order context that was characterized not only by international anarchy but also importantly by hegemonic order, stability, and leadership by U.S. hegemonic leadership? And what if we are now witnessing the weakening of the hegemonic conditions that enabled, preconditioned, or backed up the socialization processes that were depicted in the scholarship and previously may have constrained China’s range of options? An opening for retheorizing, to take account of the shifts in the past decade is provided for, and perhaps anticipated, in the temporal limits that Johnston places on Social States.

GREGORY CHIN

214
In brief, while it made sense when writing about the world order conditions of 1980 to 2000 to study China’s one-way socialization into the structure of international norms, the focus would be different if we are now in a phase of weakening U.S. leadership or hegemonic retrenchment from the institutions of global order that it helped construct. In such a scenario, the conceptual lens would need to be adjusted to allow for two-way socialization where the basis of a rising state’s cooperation in the system is no longer defined only by the international institutions’ socialization and constraint of the state, and the rising state’s internalization of exogenous norms, but where the already emergent state is also reshaping the norms, rules, and principles of the international institutions, and perhaps, gradually, reshaping the system more broadly.

**Rising Creditor, Rising Donor**

The changes in the relations between China and the World Bank were preconditioned by broader changes in China’s profile in global finance, especially its rise as a creditor nation. China has deployed waves of capital across the world and within these flows are dramatic increases in bilateral development finance. The Chinese capital, deployed across the Global South, not only has the traditional powers of the IMF, World Bank, and other donors taking notice, but also serves as a force for change coming from outside the confines of the World Bank and the structures of the traditional donors, the OECD–DAC regime.

Before the onset of the global financial crisis in 2007 to 2008, China was already increasing its financing in Africa dramatically as it sought secure access to the continent’s raw materials and new markets for its manufactured goods. In turn, China’s global financial expansion provided African governments with financing to help develop their economies and modernize their infrastructure with less stringent loan conditions than those of the World Bank, the IMF, or global capital markets. The absence of overt political conditionality, competitive interest rates, and flexible repayment schedules compared with Western counterparts has made Chinese loans highly attractive. According to Fitch Ratings, “for countries dependent on foreign aid, such as Ghana and Mozambique, Chinese loans offer an alternative source of capital against more traditional donor demands, particularly given growing infrastructure needs.”

The global financial crisis has made Western financing, both debt and equity, even more difficult to secure in Africa, and the terms of borrowing more onerous, hitting hard sectors such as extractive industries and infrastructure. At the same time, Chinese investment in resources, commitments in extractive
industries, and lending in Africa overall has only increased. The sovereign nature of much of the Chinese financing has enabled China’s financial institutions to allocate money, outside of China, in a countercyclical manner.

While Western private investors are withholding credit due to weak balance sheets and heightened risk aversion, Chinese banks have increased their lending in Africa. This is the case for the state commercial lenders, especially China Industrial and Commercial Bank (ICBC) and China Construction Bank, as well as the state policy banks, China Eximbank and China Development Bank (CDB), which is the world’s largest development bank. CDB manages the US$5 billion China–Africa Development Fund, a special Chinese government-backed loan program with Africa to help small- and medium-sized companies secure financing and build local markets. According to data provided by the Chinese bank, since the program’s inception in 2010, the bank has helped fund more than 1,000 projects that created 50,000 jobs in more than 25 African countries.

According to one foreign estimate, China Eximbank lent about $67.2 billion to sub-Saharan Africa over the past decade, versus $54.7 billion from the World Bank. This would mean that China Eximbank extended $12.5 billion more in loans than the World Bank to the world’s poorest region. Whereas CDB’s lending in Africa has focused mainly on investment to small and medium enterprises, a large percentage of China Eximbank’s financing in Africa has been for infrastructure development. More recently, it has started to direct some of its lending to agricultural business. In November 2010, Li Ruogu, Chairman of China Eximbank, told European and Chinese executives, bankers, and officials at a meeting in Luxembourg that: “There are a lot of areas to operate—particularly in the raw materials and oil sector. Certainly this is the area we will focus on.” Li added, “Very few foreign commercial banks are considering providing finance in Africa. They may see the risk aspects more than they see the benefits. We take a long-term view. We don’t expect profits this year or next year; we see things in decades.”

Beyond the state policy banks, ICBC has built a partnership with South Africa’s Standard Bank, by purchasing a 20 percent stake in the South African bank for $5.5 billion. Since forming their partnership in 2008, the two institutions have conducted 110 projects together and the value of financing agreements signed by ICBC has reached more than $7 billion.

The rise of China as a financial donor has caught the attention of the IMF and the World Bank. The international media took notice in September 2005 when China’s President Hu Jintao pledged $10 billion from 2005 to 2008 in concessional loans and preferential export buyer’s credit to developing
Two-Way Socialization

countries to improve infrastructure and promote economic cooperation at the UN Millennium Development Summit. Beijing, once again, startled foreign observers at the Forum for China–Africa Cooperation (FOCAC) in October 2006 when Chinese authorities pledged $3 billion in preferential loans and $2 billion in export credits to Africa for 2006–2009. These announcements drew the curiosity of the traditional donors, but China also caught the attention of the World Bank and the IMF in particular, as well as the G7 finance group, when its new bilateral lending in Africa started to undercut the lending of the two global financial institutions.

As early as 2004, China had effectively diverted Angola from taking a $2 billion IMF loan, when Chinese authorities entered the scene in the final hours of the bargaining and offered an equal-sized loan with no overt political or economic conditionality attached to the offer. In 2006, Beijing made itself available as an alternative source of capital for Chad, which weakened the position of the World Bank in its negotiations over the use of funds from the Chad–Cameroon pipeline project.

To the extent that the multilateral lenders had, in the past, acted as a quasi-cartel—their lending gave them bargaining power over their clients to extract concessions and demand conditions in return for their loans—China’s lending in Africa undercut this leverage over borrowing governments. Beijing’s new lending in Africa also diminished the “announcement effect” of the loans of the global multilaterals. Kahler has explained that the exercise of conditionality was linked to the power of the global multilaterals to issue their seal of approval from the “money doctor,” which in turn meant a greater likelihood of more private capital flows to the developing country as well. Control over such announcement effect has enabled the Fund and the Bank to exert policy influence over the recipient countries and promote their preferred policy prescriptions and models, even with a relatively small amount of financing.

Although China does not publish comprehensive data with per annum breakdowns on its foreign aid, we do know that the totals have been increasing dramatically over the past decade. There is reason to believe that China has grown into the second or third largest bilateral donor in the world—especially during the last five years—with an estimated total between $20 to $23 billion as feasible for 2010, if the total includes grants, interest-free loans, and concessional loans related to “foreign economic cooperation.” A senior energy policy strategist in the Washington, D.C., headquarters summed up the growing concern of Bank officials: “[T]he Bank can’t turn around in Africa without bumping into China.” The more serious attention that World Bank officials gave to the
matter was reflected in the following observation from the former World Bank Country Director for China, David Dollar, in a speech to a policy audience in Washington, D.C., in June 2007:

China’s trade with Africa has quadrupled in just a few years, reaching $40 billion in 2005, while its foreign direct investment in Africa has quadrupled. China is almost certainly going to emerge fairly soon as a larger trading partner for Africa than the United States is. China’s foreign aid to Africa is growing extremely rapidly. But to the best that we can estimate, China’s commitments of concessional assistance to Africa were in the order of $2 billion last year, and President Hu Jintao is committed to doubling that within a relatively short period of time.21

Dollar further highlighted that the World Bank had just finished a “very successful year” in 2007, with its new assistance to Africa and its International Development Association (IDA) facility totaling $2.4 billion in new commitments in that fiscal year (2007), but then went on to emphasize: “Very soon, China is likely to be a more substantial provider of concessional assistance to Africa than the World Bank’s flagship assistance program in Africa.”22

While some IMF representatives and various European monitoring bodies have taken to criticizing China on its lending arrangements, including a multimillion dollar infrastructure deal with the Congo in 2008 in exchange for metals, the World Bank has been less vocal with its criticism.23 Instead, its response (and that of other donors) has been to engage the Chinese authorities and encourage them to be more open about their African plans and to encourage African governments to become stronger advocates for greater transparency and sustainability in their deals with China. The Bank has focused on observing the shifts in the type of Chinese capital moving into Africa and has taken note of how the increased financing from China (and Gulf countries as well as India), has emboldened some African governments to demand more favorable terms for their borrowing. Officials in a number of African states have not been shy about pointing out what they see as the upsides of Chinese aid (the speed of delivery) on infrastructure projects and the fewer conditions attached to aid and investment projects.
Reluctant Co-Donors

International attention on China’s relations with the World Bank have tended to focus on representational reforms such as when China overtook the large European countries in voting power at the World Bank in April 2010. This decision was designed to give emerging economies greater say in the global institution. China’s share rose from 2.77 percent to 4.42 percent, moving it ahead of Germany, France, and Britain, but behind the United States and Japan. The changes in voting shares, which increased the voting share of some emerging and developing countries from 3.13 to 4.7 percent, also contributed $160 billion to the Bank. The head of World Bank head declared that “China’s share has increased because of its growth in the world economy.”

While the above development certainly signals the evolving nature of formal relations between China and the World Bank, institutional changes with more sustained consequences in the relationship were actually initiated in 2006, and formalized in May 2007, when the World Bank and China Eximbank signed the previously mentioned “Memorandum of Understanding on Cooperation between the Export–Import Bank of China and the International Bank for Reconstruction and Development.” This MOU symbolized a qualitative shift in the relationship between China and the Bank, whose roots can be traced back to the early to mid-2000s when the Bank was faced with rethinking the future of its aid program in China. The evolution in the Bank’s approach to China was foreshadowed in statements made during Paul Wolfowitz’s first visit to China as World Bank President in October 2005, when he stated, “China has been a large borrower from the World Bank, and is increasingly transitioning from borrower to donor. As its role changes, so its relationship with the Bank will change.” Wolfowitz also noted that his two main objectives for the visit were first to “learn more about China’s economic growth and poverty reduction […] how did China do it? I want the World Bank to be able to do more to help other countries learn too,” and second, to “understand more about what the Bank can do to assist China in addressing the still large challenges of poverty in the country.”

Under the new MOU, the Chinese partners for the World Bank on the co-donor arrangements were not drawn from the Ministry of Finance, but rather from China Eximbank, one of China’s four state policy banks headquartered in Beijing, that was founded in 1994 and is wholly owned by the Chinese government. The May 2007 MOU was signed between the Export–Import Bank of China and the International Bank for Reconstruction and Development.
When World Bank staff started to explore the possibilities for cooperating with the Chinese staff as aid donors, they came face to face with some stark differences in the approach to development lending that guided China Eximbank. For example, there are significant differences between the World Bank’s mix of conditionalities and benchmarks for structuring its development policy lending and the portion of China Eximbank’s lending that is related to “foreign economic cooperation.” This cooperation is framed, on the one hand, by Zhou Enlai’s “Eight Principles for Aid to Foreign Countries” (1959), which has long been China’s own set of principles, norms, rules, and operational standards for giving foreign aid and, on the other hand, by the lending functions and norms that are specific to China Eximbank.

China Eximbank’s lending is guided by a set of norms that are rooted in its role as the Chinese state policy bank that acts as the “operating bank for the concessional loans of the Chinese government.” One of its tasks is to share China’s “successful experience in reform and development” with recipient countries by helping to “address their problems of economic development.” The bank’s guidelines state that China Eximbank’s concessional loans should contribute to establishing “strategic partnerships,” build “mutual trust, mutual benefit, and common development,” and foster “win-win results between China and other developing countries.” The influence of the Chinese Communist Party is reflected in the fact that the guiding principle behind the bank’s aid lending is to “carefully implement the state economic and diplomatic strategies through providing financial services to publicize China’s path and experience of peaceful development and the concept of building a harmonious world.” The Party’s foreign affairs strategy is also seen in the main objectives of China Eximbank’s “foreign assistance and cooperation lending,” which are to help maintain: (1) a peaceful and stable international environment; (2) a good neighborly and friendly surrounding environment; (3) a cooperative environment based on equality and mutual benefit; (4) a security environment based on mutual trust and reciprocal cooperation; and (5) an environment of objective and friendly public opinion.

China Eximbank has strong organizational capacity and the ability to transmit its lending norms. Its international credit rating is equivalent to China’s national sovereign rating—a very strong “Aa3.” By the end of 2010, the Bank had 18 domestic business branches, and three overseas representative offices—some for Southern and Eastern Africa, and offices in Paris and St. Petersburg. China Eximbank has established relations with more than 500 banks worldwide. According to its corporate statement, “the Bank’s main mandate is to facilitate the
export and import of Chinese mechanical and electronic products, complete sets of equipment and new- and high-tech products, assist Chinese companies with comparative advantages in their offshore contract projects and outbound investment, and promote Sino–foreign relations and international economic and trade cooperation.” With such a wide range of business operations, strong capacities, and a large operating budget, China Eximbank certainly does not see itself as a junior partner to the World Bank.

China Eximbank would also be unwilling to follow the tradition of the other bilateral donors of merely lining up behind the World Bank and letting it take the lead in setting the terms and conditions of the multidonor aid packages. Traditionally, even when bilateral donors signed up to cofinance projects with the World Bank or have made large contributions on the grant portions of aid packages that include World Bank lending, the bilateral donors have had to line up behind the leadership of the World Bank.31 Officials of China Eximbank see their partnership with the World Bank instead as a partnership of equals, as “co-donors.” The lack of willingness on the part of the Chinese to subordinate their role in Africa to the leadership of the World Bank was expressed by China’s current Special Ambassador for African Affairs Zhong Jianhua when he was the Chinese ambassador to South Africa: “[T]he World Bank always wants countries to join them and to follow their process. But is the record of the World Bank in African countries so good? To work together is good. But you do not expect others to follow instructions.”32

China Eximbank President, Li Ruogu, believes that the Chinese policy bank has valuable and equally legitimate lessons to share: “[W]e have actively explored new modes of promoting international economic cooperation, and have disseminated a basket of cooperative models with developing nations … Our Bank has started a series of package cooperation projects with African nations, and won high praise and appreciation from them.” More recently, Li Ruogu responded to foreign criticism of China engaging in a “checkbook” approach to Africa, and EU trade chief Karel De Gucht pronounced that the EU would continue demanding good governance and transparent use of funds from its trading partners: “China does not interfere in the internal affairs of Africa. What we want to do is foster their own development capacity.” Li added, “Democracy and human rights, these are fantastical terms. Without economic governance
they are nothing.”

The shift in the cast of institutional actors, entailed in this new dimension of the World Bank’s operations in China, has had an effect on the overall character of relations between the Bank and China. This is not surprising given the differences of organizational culture outlined above. Some would see China Eximbank as a cog in China’s “state capitalism,” “an economic system in which governments manipulate market outcomes for political purposes.”

Martyn Davies sees China Eximbank as the “sharp end of China Inc.’s move into Africa,” one of China’s “policy banks” which is helping to deploy the bulk of Chinese capital in Africa, and to advance a “different capital risk model” that is “calculated differently to traditional [Western] investors. It is more answerable to political stakeholders pursuing a defined national interest than it is to private stakeholders.”

The staff of the World Bank and China Eximbank do share some inter-subjective understandings in terms of professional banking standards; but the policy lending of both banks is inescapably entangled in political lending to some extent. The two institutions are undeniably built around some differing policy norms, principles, values, and conceptions of institutional purpose. As such, their attempt to work together must involve building new consensus and, if it is to succeed, must extend to two-way learning. We can see the beginnings of such mutual accommodation and two-way socialization in the details of the 2007 MOU between China Eximbank and the World Bank.

The “general principles” of the MOU highlight the norms and rules of the partnership:

- Promotion of sustainable economic/social development in recipient countries, with an emphasis on helping partner countries to strengthen their own development efforts and attain their development goals.
- Assistance that contributes to measurable results and impacts, taking appropriate measures to identify, minimize, and mitigate potentially adverse environmental and social consequences of development initiatives.
- Appropriate levels of concessionality on development financing, to ensure sustainable development.

In the above “general principles,” we can see how China has accepted some of the existing rules and norms of the World Bank. At the same time, the Chinese side has also promoted rethinking and adjustment on the part of the Bank. For example, in the fourth guiding principle in the MOU—emphasizing
“appropriate levels of concessionality”—we see evidence of Chinese attempts to promote a shift in the lending rules and norms of the global multilateral institution. China Eximbank’s own concessional loans are allotted for procuring equipment, materials, technology, and services, with at least 50 percent of the procurement in a contract coming from China. The loan is denominated in Chinese RMB and has a maximum maturity of 20 years. A three- to seven-year grace period is granted to the borrower, during which the borrower only has to repay the interest payments and not the principal. The interest rate is subsidized and underwritten by Chinese government credit. China Eximbank’s loan packages to foreign states are sometimes tied to no-interest loans and grants from China’s Ministry of Commerce’s aid budget, which further subsidizes the concessional loan.

**BEYOND THE STATUS QUO**

The efforts of China Eximbank to realign some of the lending procedures and operational norms of the World Bank are an indication that it is acting in a moderately reformist or cautiously revisionist manner. While it can be said that China is not exhibiting behavior that indicates a desire to undermine the World Bank, the details of the co-donor arrangements suggest that China is interested in reshaping some of the norms of the World Bank, and is pursuing this by advancing alternative development lending standards that are rooted in the experience of China Eximbank.

Over the short- to medium-term, the World Bank continues to lend to China, and China still has much to learn from the World Bank on how to strengthen its aid effectiveness, managerial efficiency, environmental impact assessment, and mitigation measures for its aid and investment projects. It will continue to reap international public relations gains if it is seen as a cooperative stakeholder in the World Bank. Turning away from or rejecting this institutional affiliation is still costly for Beijing on a number of levels. At the same time, knowing that the global multilateral lender is not going away any time soon, Beijing also appears interested in the prestige it can gain if Southern borrowers see China as advancing Southern concerns and interests, and bringing some reforms to the World Bank. These multiple incentives for engaging the World Bank will keep China in the mode of cooperation with the global lender for the foreseeable future. However, Beijing has also started to shift more attention and resources to reinforcing or building alternative multilateral institutions, some of which are regional in scope and others that are interregional, such as the BRICS,
which stretch across various zones of the Global South.

**Regional Options**

China has applied indirect pressure on the World Bank by increasing its support (financial and human resource contributions) to regional development banks, which can either be seen as supplemental to or competing indirectly with the World Bank. During the global financial crisis in April 2009, Chinese central bank governor Zhou Xiaochuan called for regional development banks, including the Asian Development Bank (ADB), to play a bigger role in helping to manage international financial crises, because they have the “competitive edge” of being “more familiar, more trusted and having better information” on the specifics of economies inside their region. Other senior ranking Chinese officials, including Vice Premier Wang Qishan, have made similar statements about the importance of regional developments banks in their meetings with the African, Asian, Caribbean, and Inter-American Development Banks.

Chinese interest and support to regional multilateralism had been growing for more than a decade, even prior to the global financial crisis. China holds 228,000 shares (6.429 percent) of the ADB, which is the third largest percentage behind the United State and Japan. China has been a mainstay, an active contributor, and a benefactor in two regional connectivity initiatives, which are led and coordinated by the Asian Development Bank: the Greater Mekong Subregional (GMS) and the Central Asian Regional Economic Cooperation (CAREC) projects. The PRC established cofinancing partnership agreements of $20 million for each. Beijing’s overall contributions to the Asian Development Bank have continued to increase. The ADB and China Eximbank, for example, inked a three-year agreement in May 2009 at the time of the global financial crisis to jointly prepare $3 billion for projects in developing Asia, especially in infrastructure. The Chinese contribution of $1.5 billion was organized through China Eximbank.

Although the two largest donors to the ADB, the United States and Japan, are seen as still having extensive influence over lending, policy, and staffing decisions, China’s profile within the ADB has also increased. One of the ADB vice presidents, Zhao Xiaoyu, is a Chinese national, a former deputy governor of China Eximbank (2004 to 2008), former director general of international department of China’s Ministry of Finance (2002 to 2004), China’s former executive director to the ADB (1999 to 2002), and alternate executive director to the World Bank (1997 to 1999). As ADB vice president, Zhao also came to
The Chinese government has also recently increased its financial contributions to regional organizations and regional development banks outside of Asia. In addition to the FOCAC process discussed above, China caught the attention of the international media when it hosted the annual meeting of the African Development Bank (AfDB) in the summer of 2007 in Shanghai. The meeting was opened by President Hu Jintao and Prime Minister Wen Jiabao, and chaired by central bank governor Zhou Xiaochun. China joined the AfDB in 1985, made an initial contribution of $14.59 million at a time when its foreign currency reserves were meager, and pledged a total contribution of $486 million.

China joined the AfDB in 1985, made an initial contribution of $14.59 million at a time when its foreign currency reserves were meager, and pledged a total contribution of $486 million.

If one considers the scale of Chinese bilateral lending in Africa through China Eximbank and CDB, given the massive size of China's foreign currency reserves, it can be said that China's contributions to the main multilateral facilities of the AfDB have been rather modest. Although these contributions do seem measured, China has increased its contributions to the AfDB through other partnership and cooperation arrangements through which Chinese representatives can deal directly with AfDB representatives (rather than work through Canada, which represents China on the 20-member Board of Directors of the AfDB). The Partnerships and Cooperation Unit (ORRU) of the AfDB is responsible for mobilizing trust funds, cofinancing, technical cooperation, and strategic partnerships arrangements with partners to enhance the operations of the bank in regional member countries. Beijing has directed many of its recent contributions through this channel.

In 2008 and 2010, the AfDB and China Eximbank signed agreements to give the Chinese policy bank direct access to finance AfDB projects in transport,
Information and Communications Technology (ICT), and agriculture. More recently, in September 2011, the AfDB signed a multimillion-dollar cooperation agreement with China (as well as one with Brazil) to fund projects and programs in the AfDB’s regional member countries. AfDB policy and operations Vice President Aloysius Uche Ordu and Executive Vice President of the Agricultural Bank of China Zhu Hongbo signed a Memorandum of Understanding on collaborative ventures cofinancing technical cooperation for capacity building and knowledge partnership. Vice President Ordu expressed the AfDB’s appreciation of the alliance between the two banks and commended China’s role in the continent’s development.

China has also provided a substantial amount of support to the African Union’s (AU) programs throughout the continent. It established new lines of financing that involve coordination with the AU (such as the aforementioned $5 billion China–Africa Development Fund), and contributed enormously to strengthening the AU as an institution (including constructing the new headquarters for the regional grouping). In January 2012, Chinese authorities further promised RMB600 million (about $95 million) in aid to the AU in the next three years, for projects agreed to by the two sides. China also offered to further enhance its cooperation with the AU in infrastructure development planning, peace and security, peacekeeping capacity building, and the China–AU strategic dialogue mechanism.

In the Americas, after protracted negotiations that reportedly met U.S. resistance, China formally joined the Inter-American Development Bank (IDB) in January 2009. Beijing purchased 184 shares, or 0.004 percent of the Bank’s ordinary capital, and gained a seat on the Board of Governors of the IDB, its top decision-making body, and also sits on the Board of Executive Directors. Chinese authorities agreed to contribute $350 million to the IDB’s various funds and programs immediately upon entry. The IDB was eager to receive China’s financial support in 2009, at a time when it was trying to triple its capital and increase its lending to $18 billion that year, while the economies of the region looked to insulate themselves from the contagion effects of the global financial crisis. Chinese analysts have noted that China benefits from its membership in the regional development bank by gaining access to bidding for infrastructure projects in the region, and representatives of the IDB note that both sides can use the relationship to deepen economic relations.

Beijing has also increased its contributions to the Caribbean Development Bank (CaDB), the smallest of the regional development banks, which was created in 1969 to reduce poverty among its borrowing member countries.
through social and economic development. The CDB also promotes economic cooperation and regional integration. China joined the CaDB in 1998, as a nonregional member, and purchased a 5.57 percent capital stake in the CaDB. By 2005, China had increased its stake to $56 million. In 2002, Beijing provided $1 million to the CDB to establish a new special regional development fund, and its contributions to that fund have grown to over $33 million. China has been the only country so far to offer bilateral support to the CDB to establish a special regional development fund.47

At the 2012 annual meeting of the CaDB, PBOC Vice Governor Ma Delun, as alternate governor for China at the CaDB, highlighted the regional bank’s “comparative advantages such as good understanding of the region and easy access to local governments,” and said the CaDB had “become the hardcore for supporting economic and social development in the region.” He also suggested that “its role is even more important in the context of adverse international environment and lack of fiscal means on the part of governments of member countries to bolster their economies.”48 Ma pledged that “going forward, China is willing to work with CaDB to help member countries to achieve their respective social and economic development goals” and that the Chinese government “supported the general capital increase of CaDB, and will actively participate in the replenishment consultations of the Special Development Fund.”49

**Conclusion**

The above analyses highlight three points. First, significant changes are under way in the relationship between China and the World Bank as the two sides develop new ways to work together as donors, even while the Bank continues to lend to China. Their relationship was largely defined during the 1980s and 1990s by China internalizing the international norms and rules of the global institution through the process of learning and being socialized. During the last decade, however, China’s posture toward the Bank has evolved to the point where it is no longer only learning the established processes and internalizing the rules of the Bank, but also looking to advance alternative norms and rules within the new cooperation arrangements led by China Eximbank. This entails forging new consensus with the Bank on lending and policy norms. China Eximbank is pushing the World Bank to depart from some of its established endogenous norms and practices, such as its norms of concessionality for loan packages. For loan packages, China Eximbank has also successfully advocated for the Bank to move beyond its traditional rule of expecting all bilateral donors to line up
behind the World Bank on projects or loans that are cofinanced with it. China Eximbank will not subordinate itself to the World Bank, and insists that the two banks work together on equal footing as co-donors.

Second, changes in exogenous conditions, specifically China’s rise as a creditor, have preconditioned the endogenous changes in the China–World Bank relationship. On the one hand, China has deployed waves of capital throughout the Global South through bilateral channels via its state policy banks as well as the state commercial banks. On the other hand, China has made growing financial and related contributions to regional development banks for Asia, Africa, and the Americas. Through both bilateral and regional channels, China has been a source of alternative development finance to the World Bank. Of particular interest, China Eximbank is a key Chinese interlocutor in the transmission of these capital flows.

Third, the weakening of U.S. hegemonic leadership in the Bretton Woods system and the diminishing capacity of the G7 to support established institutional norms and rules, are indicative of a loosening in exogenous constraints. This weakening of hegemonic constraints creates the opening for a shift toward a two-way socialization, wherein China not only continues to selectively internalize global norms but also begins to impart some of its norms to the global institutions and to the Global South and wherein the World Bank and China’s aid recipients begin to internalize some of China’s alternative norms.

Notes


2. The Bretton Woods conference in 1944 created the post–Second World War international monetary and financial order and two public international financial institutions that were given the task of promoting global monetary and financial cooperation: the International Bank for Reconstruction and Development (known today as the World Bank) and the International Monetary Fund.


Two-Way Socialization


15. I thank Joshua Kurtlanzick for highlighting this case.


17. Ibid.


22. Ibid.


41. Zhu said the deal would cover trade finance; infrastructure; agriculture and agribusiness; clean energy projects such as solar energy and wind energy; energy conservation, emission reduction and emission trading, promotion of biogas technology in rural areas, low-carbon planting, and bioelectrogenesis; nontraditional lending business such as investment banking, consultancy and advisory business; and knowledge sharing and technical assistance. Source: “AfDB Signs Multi-Million Cooperation Agreements with China and Brazil,” African Development Bank Group, September 6, 2011.

42. Ibid.

43. At the 2006 FOCAC meeting, the Chinese government also announced that it was canceling all interest-free loans owed by eligible African countries that had matured by the end of 2005.


45. Author’s discussions with an official of the Inter-American Development Bank: May 2010; After attending the annual meeting of the Inter-American Development Bank for 16 consecutive years (since 1991), China gained “observer” status in mid-2007.


49. Ibid.