

MULTILATERALISM AND UNITED STATES FOREIGN ECONOMIC POLICY

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INTRODUCTION

Most countries employ a variety of tools to secure the greatest possible benefits from their participation in the global economy. These tools include: trade policies, exchange rate manipulation, capital controls, and migration policies, all of which help to determine a country's gains and losses in the international economy. And, not surprisingly, these policies receive an inordinate amount of attention from the country's academics, policy-makers, and private sector agents.

Unfortunately, policy-makers pay far less attention to the institutional environment through which these policies are pursued. Over the last fifty years or so, nations have pursued these benefits via membership in certain international organizations, the most famous being the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), an entity within the World Bank. Yet, on the whole, little academic interest has focused on the structure and functioning of these multilateral development institutions, nor in how nations pursue their economic goals multilaterally.

THE UNITED STATES AND MULTILATERALISM

Today's principal multilateral development institutions were established several years before the end of the Second World War at the urging of the United Kingdom and the United States.¹ These two World War II victors joined forces with other key allies to create an international economic system capable of withstanding the international trade and payments pressures that proved unmanageable during the Great Depression. When the four key

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1. What is the IMF? *available at* , <http://www.imf.org/external/pubs/ft/exrp/what.htm>.

regional development banks are added to the mix,² the result is the existing international economic framework commonly referred to as the Bretton Woods system, one which has served the world reasonably well up to now.³ Overall, the G-7 countries have largely controlled the policies adopted by the IFIs with relatively few significant disputes occurring among the members.

Despite the historical success of these organizations, the strength and resiliency of these multilateral development institutions are now being tested as never before. Critics argue that “The Bretton Woods system has become outmoded. It has served us well for a very long time, but these institutions haven’t changed with the times. They need to be rethought and restructured.”⁴

A widening cross-section of IFI members has expressed similar and growing dissatisfaction with the institutions’ goals and operations.⁵ The complaints against the institutions vary widely, but they all point to the perceived need for structural and operational reform. In particular, the developing member countries have sought a stronger voice in the operational policies of the World Bank and IMF. Among the developing country members, there is now far less willingness to accept the status quo and passively allow the G-7 and OECD (Organisation for Economic Co-Operation and Development) countries to determine IFI agendas and policies.

Currently these institutions are under considerable strain and they offer no indication of how they will change their structure and operations in years to come. Suffice it to say, the U.S. position in these institutions is unlikely to remain as strong and the expected changes are likely to be substantial. This forthcoming turbulence begs the question—what can history predict about the future of American involvement in the multilateral institutions? To a large extent, future U.S. success will depend on what the US has learned about operating multilaterally, rather than bilaterally, and how the US has multilateralized its approach in these institutions.

2. The IMF and the multilateral development banks constitute the world’s international financial institutions, hereafter referred to as the IFIs.

3. Benjamin Cohen, *Bretton Woods System* (prepared for the Routledge Encyclopedia of International Political Economy) available at <http://www.polsci.ucsb.edu/faculty/cohen/inpress/bretton.html>.

4. Steven R. Weisman, *3 Global Financial Institutions’ Roles Questioned*, N.Y. TIMES, May 23, 2007, available at http://www.nytimes.com/2007/05/23/business/worldbusiness/23world.html?_r=1&oref=slogin (quoting Former Treasury Secretary Robert E. Rubin, Chairman of the Executive Committee at Citigroup).

5. Celine Tan, *Proposed IMF Quota Reforms "Won't Benefit Developing Countries,"* 6314 SUNS South-North Development Monitor (Aug. 15, 2007) available at <http://www.twinside.org.sg/title2/finance/twninfofinance080704.htm> (For example, see a statement by Argentinean Hector Torres, Alternate Executive Director to the IMF and current chairperson of the Group of 24: “The ‘quota and voice’ reform process launched at the IMF in September 2006 in Singapore is unlikely to redress the dysfunctional nature of the Fund’s governance structure or correct the power imbalances which lead to its ineffectiveness in both its regulatory as well as lending roles.” This article is to be published in the upcoming issue of the Journal of International Economic Law).

MULTILATERAL ROOTS

Early Multilateralism

The planning and preparation for the post-World War II multilateral financial system known as “Bretton Woods”⁶ was a notable success that provided a marked contrast to America’s failed attempts to create a League of Nations during the 1919 Versailles Peace Treaty. Initial Post-War II financial planning called for the creation of three distinct multilateral organizations: the IMF to provide a stable system of exchange rates and payments, the International Trade Organization (ITO) to provide a rule-based trading system based upon the principle of Most-Favored-Nation, and the IBRD, initially designed to support postwar reconstruction of the war-torn economies of Western Europe (later turning its attention to the development needs of the world’s lesser developed countries).

The United States was a key player in the establishment and governance of these multilateral institutions, recognizing that the post-war world needed to be significantly different than the pre-war world.⁷ However, learning how to cooperate with other member countries in economic matters required considerable practice and understanding. This required IFI member countries to accept a set of governing rules, learn to live by them, and settle disputes in an orderly manner. And for the most part, this has occurred.

Modern Multilateralism

Theoretically, multilateralism consists of a joint approach to a common problem undertaken by two or more distinct actors. Multilateralism sometimes occurs among members of a multilateral organization. However, post-war economics demonstrate that bilateralism, rather than multilateralism, is a more dominant paradigm. Dating from the inception of the IFIs, principal shareholders have been allocated the greatest number of votes because they contributed the largest amounts of share capital (financial support) to the institutions’ resources. The focus on rewarding the largest contributors with the most votes was understandable in order to assemble the largest pool of resources possible for the institution’s operations. But in a very real sense, it was the wrong way to encourage cooperation and multilateral synergy. On the contrary, the weighted voting system has engendered frequent disputes among poorer member countries regarding the unequal representation. As a result, this representational inequity has served to reduce the effectiveness of IFIs and, in

6. See Benjamin Cohen, *supra* note 3 (Named after the site of the original 1943 meeting among the forty-four allied nations that gathered at a resort hotel in Bretton Woods, New Hampshire, to build the foundation for a peaceful post-war world economy).

7. Fortunately during the early post-war period the United States Congress was able to mobilize bipartisan support for these early multilateral initiatives. John R. Oneal & Mark A. Elrod, *NATO Burden Sharing and the Forces of Change*, 33 INT’L STUD. Q. 435, 437 (1989).

turn, their ability to deal with world poverty and the impact of globalization. This representational unfairness also fuels most of the current controversy surrounding the IFIs.

MULTILATERALISM—THE CASE OF THE WORLD BANK

As of June 30, 2006, there were 184 World Bank member countries. These countries are grouped into twenty four constituencies or Board “seats” (excluding the Board’s Chairman, the President of the Bank). Countries are assigned to specific Board constituencies according to comparable amounts of share-capital.⁸ Five of the twenty-four board seats are awarded to France, the United Kingdom, Germany, Japan and the United States, reflecting their dominant share of world economic activity.⁹ These constituencies are “sole country” constituencies, where the Board member represents only his or her own country, and no others. These five seats are defined as “appointed seats.” Three other countries round out the list of appointed seats: China, Russia, and Saudi Arabia. If these eight appointed seats are subtracted from the list of 184 members, sixteen “elected seats” remain to be shared among the Bank’s remaining 176 members. These seats must be allocated according to voting blocks with roughly equal amounts of share-capital. This allocation yields constituencies ranging from four countries (in the case of India, Bangladesh, Sri Lanka, and Bhutan) to twenty-four West African states, comprising the largest constituency of countries.¹⁰ Through the years, the representational unfairness of Africa has been frequently decried by both African and non-African states but to this day, this perceived representational “injustice” has remained unchanged. The remaining Bank members are divided among fourteen board seats with constituencies ranging from six to twenty-two nations.¹¹

The “influence” wielded by each World Bank member is often a function of the number of countries making up the member’s constituency. However, there is no question that the eight appointed seats (sole-country constituencies) have more power and authority to change Bank policies and procedures than do the 16 “elected” constituencies. However, mid-sized Bank constituencies

8. World Bank country share-holdings are based upon a country’s IMF quotas which themselves were based on a country’s share of world trade and its holdings of international reserves.

9. The decision to award board seats to Germany and Japan was a worthy attempt to promote a peaceful post-war world.

10. The West African constituency includes: Benin, Burkina Faso, Cape Verde, Central African Republic, Chad, Comoros, Congo (DR), Congo (RO), Cote d’Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, Sao Tome and Principe, Senegal and Togo.

11. Two mid-sized constituencies that have demonstrated effective coordination among their members, and whose combined voice is taken seriously by the Bank’s management are: Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden, sometimes referred to as the Nordic Constituency; and Albania, Greece, Italy, Malta, Portugal, San Marino and Timor-Leste.

can prevail on certain key Bank policies simply by knowing how to ‘play the game’ better than the appointed chairs. ‘Playing the game’ entails how a member may mobilize a significant group of supporters on any particular issue. It is precisely here that multilateral, rather than bilateral, skills are necessary to analyze policy issues effectively and present them in a persuasive fashion. A constituency that does so has a real strength in World Bank negotiation. Throughout most of the World Bank’s history, the U.S. has not found it necessary to learn and utilize these skills of analysis and persuasion. For many countries, America’s unilateral or bilateral paradigm is seen as counter-productive to the spirit of multilateralism and to the effectiveness of World Bank operations and programs. However, as the inequities of the weighted voting system become more apparent and controversial, as is the case today, these skills will become much more important.

In addition to the weighted voting system, there has been another development which has diminished the capability of the Bank’s poorest members to influence Bank policy and procedures. Devesh Kapur of Harvard University has argued that the existence of the International Development Association (IDA), the Bank’s soft-loan entity, has perversely “reduced institutional autonomy and fundamentally subverted the institution’s governance,” giving a lesser voice to the poorer Bank members.¹² For Kapur, soft lending harms lesser developed member countries through the “replenishment procedures of IDA—its periodicity and burden sharing procedures,” subsequently increasing the power and authority of the leading shareholders.¹³ This is because multi-year replenishments of IDA resources take place among IDA donors, with the developing countries playing essentially no role in these replenishments. And, as Kapur points out, it is the larger IDA donors, in particular the United States, that frequently tie their contributions to specific reforms and/or policy changes in borrowing countries as a quid pro quo for the promised World Bank contribution.¹⁴ This has imposed on many developing member countries a growing body of Bank reforms. In essence, Kapur argues that “major policy decisions de facto shifted from the IBRD’s Executive Board—the body charged by its articles to make policy decisions—to IDA Deputies and by extension to the richer countries.”¹⁵ As one can appreciate, the IDA replenishment negotiations have risen to a level of importance that surpasses the Bank’s Board of Governors and Executive Directors and has not advanced the concept of multilateralism. If anything it has, in the words of Dr. Kapur, “subverted it.”

12. Devesh Kapur, *Do As I Say Not As I Do: A Critique of G-7 Proposals on Reforming the MDBs 4* (Ctr. for Global Dev., Working Paper No. 16, 2002), available at <http://www.cgdev.org/content/publications/detail/2774>.

13. *Id.*

14. *Id.* at 5.

15. *Id.*

SOLE-COUNTRY CONSTITUENCIES VS. MULTI-COUNTRY CONSTITUENCIES

Some academics argue that a sole-country constituency is more influential than a multi-country constituency if for no other reason that it speaks only for one nation and therefore, has no need to clear its project and policy positions with multiple constituency partners. Or, alternatively, it need not “water-down” policy proposals to make them more acceptable to its constituency partners. This argument seems to carry significant weight with the U.S. Congress which, from time to time, has expressed its preference for the United States *not* to share a constituency with even one or two other countries in order not to “weaken” American influence in any of the IFIs.

In my mind, this is leading the United States in precisely the wrong direction. If the United States were to announce to the Governors of the World Bank, the IMF, and the four leading regional development banks that it would be willing to “share” its constituency with several other IFI members, it could accomplish several noteworthy goals almost immediately. First, it would offset the too widely held view that Americans consider themselves unwilling or without necessity to engage multilaterally with other states. Second, America would gain genuine experience through utilization of multilateral processes and approaches. It would become necessary, prior to Executive Board voting on each issue, project, or program, to talk with constituency colleagues yielding, hopefully, a more reasoned position than would otherwise be reached unilaterally.¹⁶

MEMBERSHIP IN THE MULTILATERALS

Membership in a multilateral institution can be undertaken for a variety of reasons. Suffice it to say that no two countries join a specific multilateral organization for the same reasons.¹⁷ One can find variations in every country’s membership rationale but membership of lesser developed member countries is perhaps the easiest to explain. IFI’s give financial and technical assistance and this assistance can play a key role in supporting the development process in a

16. My own experience as an MDB board member has given me the opportunity to witness first hand this process of “constituency coordination.” In particular, our neighbors to the north, the Canadians, have worked effectively with their constituency members in reaching agreement on various constituency policies and issues. Likewise, this holds true for the Nordic constituencies I’ve had the pleasure to work with in the past.

17. In testimony before the United States Congress’ Committee on Financial Services I described multilateral participation in the following way: Countries participate in multilateral institutions for a variety of reasons, noble and ignoble. The G7 may appreciate the Banks for their geo-political advantages, but a variety of other reasons can be mentioned for the majority of member states: procurement, staff and management positions, resource transfer interests, donor and/or recipient association, regional and sub-regional association, national pride, technical assistance, private sector collaboration, education, health, agriculture and infra-structure externalities, etc. More could undoubtedly be listed. But for most countries this package of benefits is seen as well worth the price.

resources scarce country. But even the simplest case of lesser developed countries with scarce resources can be more complex when viewed beneath the surface. A low income country may view multilateral membership as a vehicle for supporting its involvement in regional economic development efforts, or as a method for getting on a better footing with key donor nations that can assist bilaterally as well as multilaterally. Access to potential procurement contracts or eligibility for mid to high level staff positions in these institutions may also factor into the decision. Finally multilateral membership can be, and often is, seen as a mark of economic maturity and a sign that the economy in question has 'come of age.'

The case becomes more complicated when membership of a developed country is examined. U.S. participation and membership has a variety of reasons that may vary considerably over time. I have attempted to enumerate the methods utilized by the U.S. to exert influence in these IFIs in Annex 1. The fourteen "modes of influence" identified in Annex 1 could be utilized by all IFI members. However, they are listed here as a prelude to consideration of a more specific set of American goals to be pursued multilaterally.

THE USE AND ABUSE OF AMERICAN INFLUENCE IN THE MULTILATERALS

Over the last two decades there have been several attempts to gauge and evaluate the success of the U.S. in exerting influence in multilateral organizations. The last serious examination of the extent in which U.S. influence has achieved its foreign policy goals took place in 1982 when the U.S. Treasury published a review of American involvement in the Multilateral Development Banks.¹⁸ The Treasury study concluded that American involvement in the MDBs has significantly contributed to America's success in fulfilling foreign policy goals, including: achieving "global economic and financial objectives," advancing U.S. humanitarian interests, and contributing "to the achievement of U.S. long and medium term political/strategic interests."¹⁹ The United States has undoubtedly been the most vocal of the large shareholders in the Multilateral Development Banks, often utilizing the tools of influence contained in Annex 1 to achieve changes in broader bank policies and in procedural/operational modalities. U.S. influence has been "spent" on worthy objectives as well as on ridiculous goals. Annex 2 identifies

18. U.S. DEP'T OF THE TREASURY, UNITED STATES PARTICIPATION IN THE MULTILATERAL DEVELOPMENT BANKS IN THE 1980S (1982). Two other studies of America's role in the multilateral development banks should be mentioned here. First, a study conducted by the Center for Strategic and International Studies (CSIS), BARBARA UPTON, *THE MULTILATERAL DEVELOPMENT BANKS: IMPROVING U.S. LEADERSHIP* (2000), appeared in January 2000, and close behind was, ALLAN H. MELTZER, *REPORT OF THE INTERNATIONAL FINANCIAL INSTITUTION ADVISORY COMMISSION* (2000). Dr. Allan H. Meltzer of the American Enterprise Institute (AEI) chaired the International Financial Institution Advisory Commission and the report is more commonly known as the Meltzer Report, March 2000.

19. U.S. DEP'T OF THE TREASURY, *supra* note 18, 4.

fifty-five specific targets of American influence over the last decade or so. In viewing these targets, it is easy to understand how many of America's allies have expressed discomfort over the great number of targets the United States has sought to change and how awkward it has been for these allies to know which of the numerous targets to support. Indeed, the United States is frequently accused of attempting to make so many changes in the operations and policies of the MDBs without providing justification that these changes are linked to development. Many American MDB allies worry that U.S. influence, being finite, will be eroded to the point of ineffectiveness.²⁰

Another concern expressed by American allies regards the "Lone Ranger" attitude of America. This complaint has stood out in a number of interviews that I have conducted. Essentially, it argues that, if the U.S. were to *first identify* a development issue important to MDB operations and *then* seek to construct a consensus around the issue, then the United States would not find itself so frequently isolated. Equally important is the widespread feeling that if a country joins forces with the United States in such a consensus that the country will be "branded" as an American lackey.

Annex 3 lists specific legislative and executive orders directing U.S. votes on a variety of MDB issues. When the U.S. Congress instructs MDB delegates how to vote on IFI issues, many view U.S. voting as being 'all over the map.' Certain directed voting issues were historically considered to be of such importance that the executive or legislative order required the U.S. representative to cast a "no" vote or an abstention. Such issues ranged from human rights, to protectionist measures opposing palm oil, sugar and citrus projects. On these issues, it was well-known that the U.S. vote failed to successfully kill the opposed endeavor. Under the circumstances, there can be little doubt that American allies see these directed votes as necessary posturing to ensure Congressional support at appropriations time.

There is a general recognition that the United States possesses more influence in the IFIs than other members. Even in the regional development banks, U.S. influence is very powerful and often utilized, although not as strong as in the Bretton Woods Institutions.²¹

CONCLUSION

It is my contention that today's multilateral development institutions serve an important function in the globalized world economy of the twenty-first century. But equally true is the companion contention that these institutions fall far short of demonstrating their potential to promote growth and reduce

20. Although difficult to document, it is my strongly held belief that in no other member country does the legislative branch of government take such an active role in MDB policies and programs as does the United States Congress.

21. Each of the regional development banks is historically unique. The ADB was seen as a counterweight to the World Bank by the southeast Asian countries and as a way to motivate Japan as a new international.

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poverty. Until the majority of MDB members learn how to operate as effective multilateral partners, the institutions will continue to fall short of their potential. All of the MDB members, and perhaps most importantly the United States, owe it to the world's poor to improve the operations of the institutions by strengthening their multilateral foundations. Too much is at stake to do otherwise.

ANNEX NO. 1**Modes of Shareholder Influence**

- 1) Meeting with MDB President and Senior Management
- 2) Annual Meeting: Governor's Speech and Meetings with Other Key Shareholders
- 3) Initiate and/or Review Key MDB Policy Papers
- 4) Individual Project Loans—Review, Discussion, and Vote
- 5) Supporting Nationals for Key Staff Positions
- 6) Replenishment Negotiations: Linking Specific Demands to Potential Contribution Levels
- 7) Consensus Building with Like-Minded Shareholders (i.e. G-7 or OECD Meetings)
- 8) Board Controlled Review Committees: Evaluation, Audit, Inspection Panel, etc.
- 9) Co-Financing Partner Influences: Bilateral Donors/Private Sector
- 10) Overseas Networks: Diplomatic Posts, Aid Missions, Private Sector
- 11) Capital Markets: Rating Agencies and Bond Firms
- 12) Meeting Payment Commitments (IDA Tranches, Capital Subscriptions)
- 13) Specific Instructions to Executive Directors: Abstentions, 'No' Votes, and Talking Points
- 14) Visits to MDB Field and Headquarters Personnel: Official, NGOs, and Private Sector

ANNEX NO.2**American Shareholder Influence Objectives
(What Shareholder Influence Gets “Spent” On)**

- 1) Gender Issues
- 2) Appropriate Technology
- 3) Micro-Credit Programs
- 4) Basic Human Needs
- 5) Poverty Alleviation
- 6) Environmental Policies
- 7) Environmental Projects
- 8) Private Sector Promotion
- 9) Recurrent Cost Recovery
- 10) Country Assistance Strategies
- 11) Local Currency Financing
- 12) Project Implementation Units
- 13) Lines of Credit
- 14) National Development Banks
- 15) Local vs. Foreign Consultants
- 16) Rural Health Projects
- 17) Primary vs. Secondary Education
- 18) Post Evaluation
- 19) Capacity Building
- 20) Renewable Energy
- 21) Regional Integration
- 22) Corruption
- 23) Accountability
- 24) Tariffs and Trade Barriers
- 25) Ownership
- 26) Civil Society
- 27) Performance Standards
- 28) Post Conflict Policy
- 29) NGOs
- 30) Structural Adjustment
- 31) Sector Adjustment
- 32) Local Offices
- 33) Transparency
- 34) National Sovereignty
- 35) Program Lending
- 36) Staff Nationality Quotas
- 37) Integrated Rural Development
- 38) Financial Sector Reform
- 39) Maintenance Systems
- 40) Debt Management
- 41) Poverty Profiles
- 42) South vs. North NGOs
- 43) Privatization
- 44) Institutional Reform
- 45) Conditionality
- 46) Impact Studies
- 47) Social Safety Nets
- 48) Graduation
- 49) Exchange Rate Regime
- 50) Rule of Law
- 51) Project Supervision
- 52) Capacity Building
- 53) Partnership
- 54) Staff Benefits
- 55) Travel Policy

ANNEX NO. 3**Chronology of United States Legislation and Executive Orders on Directed
Votes On IFI Assistance**

- 1972-Narcotics (amended 1992, 1994, and 1995)
- 1977-Human Rights
- 1977-Palm Oil, Sugar, Citrus
- 1978-Obey Amendment on Surplus Commodities and Minerals
- 1983-IMF Bailout of Banks
- 1983-IMF Assistance to Communist Dictatorships (Gramm Amendment)
- 1983-IMF Programs and Debt Levels
- 1989-MIGA: Multilateral Investment Guarantee Agency (Worker Rights/Trade Distortion/Surplus Capacity)
- 1989-Environmental Impact Assessments (Pelosi Amendment)
- 1990-Chemical and Biological Weapons
- 1991-Sanctions Against Use of Chemical or Biological Weapons
- 1993-Serbia or Montenegro
- 1994-Expropriation (Helms Amendment)
- 1994-Nuclear Material
- 1996-International Terrorism
- 1996-Transparency of Budgets—Military Expenditures
- 1996-Female Genital Mutilation
- 1996-Policy Toward Burma
- 1996-Cuba
- 1997-War Criminals (Lautenberg Amendment)
- 1998-IMF Korea
- 1998-Religious Persecution
- 1998-Chemical Weapons Sanctions
- 2000-Trafficking in Persons (Sex Trade, Slavery and Involuntary Servitude)
- 2000-User Fees
- 2000-Serbia
- 2001-Zimbabwe