

Senior Honors Thesis

China and the World Bank: Partners in Development

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Preface and Acknowledgments

I became interested in China-World Bank relations when I was interning at the World Bank's office in Beijing in the summer of 2013. I was involved in a major urbanization study that Premier Li Keqiang had requested the World Bank to conduct in conjunction with the Development Research Center (DRC) of China's State Council. As I read through binders after binders of documents on China's land policy reform, attend high-profile international conferences, and talk with Chinese officials, my knee-jerk reaction was: how is the relationship between China and the World Bank? As my research went on, this broad question eventually morphed into a specific question: how and to what extent does the World Bank influence China's domestic reforms?

It turned out to be a rather difficult question to answer. Indeed, my research journey has been filled with exciting discoveries as well as frustrating setbacks. I thought about giving up, several times, but eventually convinced myself to persevere. In retrospect, that was the best decision I have ever made. As mentally challenging and at times physically exhausting as this journal has been, it is also extremely rewarding. I can now proudly say that I have carefully read each and every piece of scholarly literature on China-World Bank relations and reviewed many other literatures surrounding this topic. I can now easily converse with experts on this topic, being able to ask relevant and detailed questions.

There are some important people I would like to acknowledge. Aside from my loved ones who have always stood beside me in times of despair, I am grateful to the eight interviewees that took time from their busy schedules to answer my questions, either in person or via the phone. They are: (from the Chinese government) Liu Shouying, Deputy Director of Agriculture Department at DRC; Zhang Shuo from the Department of International Economics at China's Ministry of Foreign Affairs; (from the World Bank) Axel van Trotsenburg, Vice President of East Asia and Pacific at the World Bank; David Dollar, former Country Director of China and Mongolia at the World Bank; Liu Zhi, Lead Transport Economist at the World Bank; Rachel Kyte, Vice President and Special Envoy on Climate Change at the World Bank; and Zhu Xian, Vice President and Chief Ethics Officer at the World Bank; and (from the academia) Dwight Perkins, Harold Hitchings Burbank Professor of Political Economy at Harvard University.

This thesis also benefited from my discussions with Ivan Rasmussen at the Fletcher School and Professor David Dapice at Harvard Kennedy School, not to mention the guidance and support from my thesis advisors, Professor Michael Beckley and Professor Samuel Sommers, who provided timely feedbacks to my preliminary ideas and early drafts.

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“We are very poor. We have lost touch with the world. We need the World Bank to catch up. We can do it without you, but we can do it quicker and better with you.”
– Deng Xiaoping told visiting World Bank President Robert McNamara, 1980.¹

“It is now the World Bank that can draw from China’s experience...and employ this knowledge with other countries to overcome poverty in the world.”
– World Bank President Robert Zoellick in an op-ed in China Daily, 2010.²

The juxtaposition of these two quotes underlines the dramatic change in China’s relationship with the World Bank in the past three decades. China’s newfound prestige and influence today owes much to its remarkable success in economic development. While the success story of China’s remarkable, albeit incomplete, transition from a poor, planned economy to a prosperous market economy is well known, the underlying efforts and struggles have been less fully recognized. China’s decision to reform and open up in late 1979 coincided with another significant event: its assumption of World Bank membership in early 1980. It is therefore interesting to examine how these two seemingly distinct trajectories intersect and interact to produce a much larger synergy.

This thesis asks a deceptively simple question: how and to what extent did the World Bank influence China’s economic reforms? The intuitive answer may simply be: “by lending money to China.” That may be true when China was poor, but how do

¹ Personal communication from Caio Koch-Weser, participant in the initial meeting with Deng Xiaoping as Mr. McNamara’s personal assistant the World Bank’s first Division Chief for China after it rejoined in May 1980.

² Zoellick, Robert, Op-ed: A Constructive Role with China, China Daily (September 13, 2010) <http://www.worldbank.org/en/news/opinion/2010/09/13/op-ed-constructive-role-china>

we explain the fact that even as its wealth increases, China still demonstrates a consistent pattern of engagement and cooperation both with the World Bank and with the set of international norms it represents? Why does the World Bank matter to China? Are there non-material factors at work here?

These are highly salient questions. Empirically, understanding the specific mechanisms through which the World Bank shapes China's economic reforms and their impacts on policy formulation will, first and foremost, help China and the World Bank build a stronger partnership. It matters because China is the world's biggest developing country and the World Bank is the world's preeminent multilateral development assistance agency, both of which face monumental development challenges. Secondly, understanding the successes and limitations of the World Bank's assistance strategy in China will provide valuable insights to other less successful transition economies on how best to engage the World Bank to spur economic growth and lift people out of poverty. Theoretically, conclusions from this study will shed new light on the rationalist-constructivist debate on state behavior. It will also have important implications on the capacity of neo-liberal institutions in integrating and socializing novice states.

The thesis is organized as follows: Chapter 1 reviews literatures on relevant theories and discourses on international organizations, China and their interactions. Chapter 2 contextualizes current China-World Bank relationship in a broader historical narrative. Chapter 3 provides empirical evidences and analysis. Finally,

Chapter 4 draws conclusions and implications.

Chapter 1: Literature Review and Theoretical Foundation

1.1 International Organizations and Their Functions

To understand how international organizations (IO) influence state behavior, it is perhaps useful to review the specific functions IOs perform. What properties enable IOs to wield influence against the state? To answer this question, we turn to Abbott and Snidal's comprehensive account, "*Why states act through formal international organizations*".³

IOs possess two distinguishing characteristics: centralization and independence. Centralization refers to the presence of "a concrete and stable organizational structure and an administrative apparatus managing collective activities"; independence refers to "the authority to act with a degree of autonomy, and often with neutrality, in defined spheres."⁴ These two features enable IOs to minimize transaction costs and to maximize efficiency. Much like the practice separating ownership and control in corporations, member states grant (owners) some authority to IOs and their professional staff (managers) but supervise them through structures skin to corporate shareholders meetings.⁵ Take, for example, the World

³ Abbott, Kenneth W., and Duncan Snidal. "Why states act through formal international organizations." *Journal of conflict resolution* 42.1 (1998): 3-32.

⁴ Ibid.

⁵ Berle, Adolf Augustus, and Gardiner Gardiner Coit Means. *The modern corporation and private*

Bank. Compared with a decentralized approach based on *ad hoc* contracting, a formal organization provides efficiency gains that outweigh the accompanying costs in terms of money, human resources and constraints on unilateral action. Centralized operations will have significant distributional consequences particularly in the World Bank where member states differ in power and resources. These consequences are most apparent in output such as information and rules, but are also true of more material activities such as financial assistance.⁶

But centralization and independence produce political effects beyond mere efficiency. Independence, in particular, enables IOs to “shape understandings, influence the terms of state interactions, elaborate norms, and mediate or resolve member states’ disputes.”⁷ Being independent, whether actual or perceived, grants IOs special legitimacy, which in turn affects the legitimacy of member states. Even centralization, seemingly more mechanical, can alter states’ perceptions and the context of their interactions.

Several important insights from this body of work are of particular relevance to this thesis. First, IOs are vehicles for pooling resources. At the World Bank, member states pool financial resources through capital contributions (subscriptions of shares), providing a solid capital base on which the Bank makes credible financial commitments to borrowers, who rely on the Bank for costly reforms and

property. Transaction Publishers, 1991.

⁶ Abbott, Kenneth W., and Duncan Snidal. "Why states act through formal international organizations." *Journal of conflict resolution* 42.1 (1998): 3-32.

⁷ *Ibid.*

development, and to world capital markets, where the Bank borrows at advantageous rates. Moreover, this multilateralism promotes burden sharing between states and may limit the competition for influence often seen in bilateral assistance. In a similar vein, by combining development loans in a common portfolio, member states pool, and thereby reduce, their individual risks. With respect to the Bank's substantive operations, pooling also enables it to reap economies of scale and economies of scope from its large number of activities. For example, establishing standard procedures and collecting a large amount of data across almost all countries enable the Bank to develop greater technical expertise than could individual states or regional development banks. At the same time, this knowledge base prepares the Bank to "respond quicker and better" to new transnational issue areas such as climate change.⁸

Second, IO independence renders them ideal platforms for "laundering". Similar to the common usage of money laundering but without the negative connotations, laundering in the IR sense refers to the process where "activities that might be unacceptable in their original state-to-state form become acceptable when run through an independent, or seemingly independent, IO."⁹ The World Bank is such a case in point. States prefer development assistance from an independent financial institution over direct aid from another state, especially one with a colonial past or a

⁸ Interview with Rachel Kyte, World Bank Group's Vice President and Special Envoy on Climate Change. March 2014.

⁹ Abbott, Kenneth W., and Duncan Snidal. "Why states act through formal international organizations." *Journal of conflict resolution* 42.1 (1998): 3-32.

political motive. The World Bank restricts national autonomy such that loans may not carry the same domestic political implications of dependence and inferiority as would conditions imposed by, say, the United States. These considerations make the World Bank a superior agent of promoting domestic reforms. Furthermore, the autonomy needed for successful laundering gives IOs influence over the substance of their activities. World Bank staff has significant input into lending criteria and economic adjustments policies and increasingly, into social, environmental, and other related policies. For example, World Bank's former president Robert McNamara is credited for broadening development agenda beyond economic growth to include social factors and to reorient World Bank policy.¹⁰ As later chapters will show, the World Bank president also has significant influence over membership decisions, sometimes even at the opposition of powerful member states.

Third, IOs serve as neutral resource allocators. Despite being the biggest multilateral development financier, the World Bank is limited by its finite financial resources to meet an ever-expanding portfolio of responsibilities.¹¹ It is thus important that the Bank does not play favors in the allocation of scarce resources. The World Bank's Article of Agreement tries to guarantee its neutrality by requiring that it ignore "the political character of the members or members concerned." Nor

¹⁰ Kapur, Devesh, John Lewis, and Richard Webb. "The World Bank: Its First Half-Century, Volume I: History (Washington DC: Brookings Institution), eds (1997b)." *The World Bank: Its First Half-Century* 2 (1997).

¹¹ Einhorn, Jessica. "The World Bank's mission creep." *Foreign Affairs* (2001): 22-35.

are the Bank and its staff allowed to “interfere in the political affairs of any member.” Instead, “[o]nly economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purpose states in Article 1.”¹² Therefore, member states – democratic and authoritarian alike – draw benefits from the Bank on the basis of technical analysis rather than value judgments.

Finally, IOs are “community representatives” and “managers of enforcement”.¹³ States establish IOs to act as a representative or embodiment of a community of states towards a shared objective. For example, fighting poverty through economic development was a central aspiration in the post-war organization boom and remains important, if only partially fulfilled, aspect of IO operations today. Perhaps the most important function of community representatives is to develop, elaborate and express community norms and values. For instance, the World Bank was a key player in the creation of the United Nations Millennium Development Goals (MDG), which has guided the efforts of virtually all organizations working in development and has been as a framework for measuring development results since its declaration in September 2000.¹⁴ Furthermore, IOs have some direct means of enforcement. Because World Bank membership often entails significant benefits and

¹² Articles of Agreement of the International Bank of Reconstruction and Development, Article IV, Section Ten.

¹³ Abbott, Kenneth W., and Duncan Snidal. "Why states act through formal international organizations." *Journal of conflict resolution* 42.1 (1998): 3-32.

¹⁴ See Millennium Development Goals at the World Bank: <http://go.worldbank.org/IQ9Z4PTBY0>

relatively little costs to developing countries, the chief instrument of enforcement is withholding benefits, such as loan disbursements to a particular member state. Another measure is the requirement of national reporting – wherein failure to report itself indicates improper behavior and will lend to international embarrassment. In the case of the World Bank, the requirement for member state to release of economic data is crucial for the publication of the annual World Development Reports, one of the Bank’s signature contributions to global development.

It should be acknowledged, of course, that IOs have not been as effective in practice as they aspire to be. The lack of independence and neutrality often hampers their legitimacy and effectiveness. And the World Bank, for its part, has seen its fair share of criticisms ever since its creation in 1944. It’s also important to acknowledge that while the creation and evolution of IOs represent deliberate decisions by states to change their mutually constituted environment and thus themselves, these processes are often initiated and shaped by states partly due to the many limitations outlined above. But it is precisely these possibilities and limitation that make the IOs a window into investigating the theoretical debate outlined in the next section.

1.2 Putting IOs into Theoretical Perspectives

IR theories propose two competing approaches to explain how IOs influence state behaviors. The rationalist approach argues that IOs effect behavioral change through material rewards and punishments. States respond to incentives and sanctions imposed by international actors, thereby maximizing their payoffs. This mechanism corresponds to the realist set of assumptions that define states as cost-benefit-calculating, utility-maximizing actors.¹⁵ According to this view, states are concerned with relative gains rather than absolute gains, thus they are reluctant to join and support IOs.¹⁶ Unlike realists that see distribution of power as underlying determinants of state-IO interactions, liberal institutionalists take a more optimistic view, highlighting the positive outcomes of international cooperation mediated through IOs.¹⁷ Nonetheless, they see IOs as exerting exogenous influences that constrain non-changing agents. Moreover, both assume that state behavior could be explained by states' rational calculations of self-interests.

The socialization approach, on the other hand, argues that non-material factors dictate state actions.¹⁸ Inserting a social context into mainstream IR theories, social

¹⁵ Waltz, Kenneth N. *Theory of international politics*. Waveland Press, 2010.

¹⁶ Grieco, Joseph M. "Anarchy and the limits of cooperation: a realist critique of the newest liberal institutionalism." *International organization* (1988): 485-507.

¹⁷ Keohane, Robert O., and Lisa L. Martin. "The promise of institutionalist theory." *International Security* 20.1 (1995): 39-51. And Keohane, Robert O. *After hegemony: Cooperation and discord in the world political economy*. Princeton University Press, 2005.

¹⁸ Wendt, Alexander. "Constructing international politics." *International security*(1995): 71-81.

constructivists recognize that states that enter into social interactions rarely emerge the same.¹⁹ They thus posit a link between the presence of particular normative structures embodied in IOs and the incorporation of these norms of behavior by the actor/agent at the unit level.²⁰ In other words, states are socialized into the social norms of behavior through participation in IOs. In this way, IOs are not merely reflections of balance of power but are active participants themselves, serving as chief “agents of counter-realpolitik socialization.”²¹ Taking into account non-material forces perpetrated by non-state actors, the socialization approach represents a fundamental challenge to the materialism and methodological individualism upon which mainstream IR theories are built.²²

These two approaches each proposes a different mechanism through which IOs influence state behavior. The first mechanism is conditionality, whereby IOs link admission and other forms of material rewards and punishments directly to state behavior.²³ The alternative mechanism, based on social constructivism, includes a broader set of socialization processes such as social influence and persuasion –

¹⁹ Johnston, Alastair I. *Social states: China in international institutions, 1980-2000*. Princeton University Press, 2008.

²⁰ Checkel, Jeffrey. "The Constructive Turn in International Relations Theory." *World politics* 50.2 (1998): 324-348. And Hopf, Ted. "The promise of constructivism in international relations theory." *International security* 23.1 (1998): 171-200.

²¹ Johnston, Alastair I. *Social states: China in international institutions, 1980-2000*. Princeton University Press, 2008.

²² Zürn, Michael, and Jeffrey T. Checkel. "Getting socialized to build bridges: constructivism and rationalism, Europe and the nation-state." *International Organization* (2005): 1045-1079.

²³ Kelley, Judith. "International actors on the domestic scene: Membership conditionality and socialization by international institutions." *International organization* 58.3 (2004): 425-458.

instruments that are much “softer” than outright sanctions.²⁴ The defining feature is that external actors do not link any concrete incentives to behavior but rely solely on the use of norms to either persuade, shame, or praise actors into changing their policies.²⁵ State may change their policies either as a result of change in beliefs, or as a result of concern for its reputation on the world stage. Johnston calls this latter form “social influence” and argues that it could lead actors to adopt pro-norm policies even in the absence of exogenous material incentives.²⁶

Until recently, however, the primary focus of IR theories on state-IO interactions has been cast at the international level, with IOs held as affecting state behavior by providing solutions to “traffic control” problems,²⁷ reducing transaction costs,²⁸ providing a language and grammar of international politics,²⁹ and constituting state actors themselves.³⁰ Without denying the effects of IOs on an international level, a second wave of scholarly work focuses on their effects on domestic politics. Several lines of argument flow from this growing body of work. Some have argued that international rules and norms embedded in IOs can infuse the beliefs and values of

²⁴ Ibid.

²⁵ Ibid.

²⁶ Johnston, Alastair Iain. "Treating international institutions as social environments." *International Studies Quarterly* 45.4 (2001): 487-515.

²⁷ Stein, Arthur A. "Coordination and collaboration: regimes in an anarchic world." *International Organization* 36.2 (1982): 299-324.

²⁸ Keohane, Robert O. *After hegemony: Cooperation and discord in the world political economy*. Princeton University Press, 2005.

²⁹ Kratochwil, Friedrich V. *Rules, norms, and decisions: on the conditions of practical and legal reasoning in international relations and domestic affairs*. No. 2. Cambridge University Press, 1991.

³⁰ Wendt, Alexander. "Constructing international politics." *International security*(1995): 71-81.

political leaders within the state.³¹ As Robert McElroy notes, “[T]he conscience of a state decision maker can lead him to actually decide in favor of a particular policy action at least in part because of its moral significance.”³² Other have argued that a regime’s tenets may become enmeshed in a country’s domestic political processes through the standard operating procedures of bureaucratic agencies.³³ Still others focus on the action and interests of political actors within the state. For example, government officials can invoke certain international norm to further their own interests in domestic policy debate by justifying their unpopular policies or questioning the legitimacy of another’s.³⁴ Because IOs may be empowering instead of constraining forces contrary to rationalist arguments, IOs are viewed not as “concrete girders constraining action but, instead, are media through which action becomes possible.”³⁵

Cortell and Davis advanced this last line of analysis further. They examined the effects of international norms on US economic and security policies and argue that domestic political actors can appeal to IOs to further their own interests in the

³¹ Nye Jr, Joseph S. "Nuclear learning and US-Soviet security regimes." *International Organization* (1987): 371-402. And Nadelmann, Ethan A. "Global prohibition regimes: The evolution of norms in international society." *International Organization* (1990): 479-526.

³² McElroy, Robert W. *Morality and American foreign policy: the role of ethics in international affairs*. Princeton, NJ: Princeton University Press, 1992.

³³ Young, Oran R. *International cooperation: Building regimes for natural resources and the environment*. Cornell University Press, 1989.

³⁴ McElroy, Robert W. *Morality and American foreign policy: the role of ethics in international affairs*. Princeton, NJ: Princeton University Press, 1992.

³⁵ Dessler, David. "What's at stake in the agent-structure debate?." *International Organization* (1989): 441-473.

domestic political arena.³⁶ They found that domestic salience of the international norm concerned could largely explain the variation of external influence on domestic political processes. According to them, salience is measured by changes in 1) the national discourse, 2) the state's institutions, 3) and state policies. International norms can become salient domestically through what Checkel refers to as "cultural match", the extent to which they resonate with domestic norms, understandings, beliefs, and obligations.³⁷ Another mechanism in which salience can be increased is through the congruence of international and domestic interests. It has been shown that international norms are more likely to become salient if they are perceived to support important domestic material interests.³⁸ Another factor contributing to the salience of an international norm is the state's domestic political institution. Compliance of international norms cultivates vested interests and bureaucratic routines in a state's institution, which in turn perpetrate the salience of such norms.³⁹

Finally, according to Cortell and Davis, international socialization can have a major role in increasing salience. Studies have shown that non-state actors often produce socializing effects through the use of "soft" power resources, such as moral

³⁶ Cortell, Andrew P., and James W. Davis Jr. "How do international institutions matter? The domestic impact of international rules and norms." *International Studies Quarterly* (1996): 451-478.

³⁷ Checkel, Jeffrey T. "Norms, institutions, and national identity in contemporary Europe." *International Studies Quarterly* 43.1 (1999): 84-114.

³⁸ Cortell, Andrew P., and James W. Davis Jr. "Understanding the domestic impact of international norms: A research agenda." *International Studies Review* 2.1 (2000): 65-87.

³⁹ Ibid.

leverage and technical knowledge. Martha Finnemore studied the diffusion of international science norms and found that “states were socialized by international organizations and an international community of experts – in this case scientists – to accept the promotion and direction of science as a necessary and appropriate role.”⁴⁰ The result has been the proliferation of national bureaucracies devoted to science. Socialization is also effective when a state’s international reputation is stake. For example, Scott Segan found that the widespread international acceptance of the norms associated with the Nuclear Non-Proliferation Treaty convinced the newly independent Ukraine that renunciation of nuclear weapons was a necessary step toward achieving international standing: “the NPT regime created a history in which the most recent examples of new or potential nuclear states were so-called 'rogue states' such as North Korea, Iran and Iraq. This was hardly a nuclear club whose new members would receive international prestige.”⁴¹

Yet, the impact of IOs on domestic policies may vary across countries as well. Checkel suggests that the point at which a state commenced participation in an IO explain such variations. In the words of Checkel, “argumentative persuasion is more likely to be effective when the persuadee [sic.] is in a novel and uncertain environment...and thus cognitively motivated to analyze new information.”⁴² He

⁴⁰ Finnemore, Martha. "International organizations as teachers of norms: the United Nations Educational, Scientific, and Cultural Organization and science policy." *International Organization* 47.04 (1993): 565-597.

⁴¹ Sagan, Scott D. "Why do states build nuclear weapons? Three models in search of a bomb." (2012).

⁴² Checkel, Jeffrey T. "Why comply? Social learning and European identity change." 55.3 (2001):

also suggested that, “novice agents with few cognitive priors [prior beliefs] will be relatively open to persuasion.”⁴³

Having reviewed the mechanisms through which IOs and international norms can affect states’ domestic policies, we now turn to the specific case of China – probably the largest “novice agent” to any international organization.

1.3 China’s Approaches to IOs

There is a heated debate, both within and outside China, on how China should perceive and approach IOs in the context of China’s dramatic rise as a major power. While China has yet to formulate a coherent grand strategy in foreign policy, much less its specific strategy in dealing with IOs, the overarching goals of China’s diplomacy are clear. According to President Hu Jintao, “[China’s foreign policy] must safeguard the interests of sovereignty, security and development.”⁴⁴ However, as Wang Jisi acknowledges, this three-pronged definition of China’s core interests sometimes come into conflict with each other.⁴⁵ For example, domestic development necessitates greater interdependence with the rest of the world in an age of globalization and will, therefore, undermine China’s sovereignty. How to

553-588.

⁴³ Ibid.

⁴⁴ Hu, Jintao, Report to the 17th Party Congress of the CCP, October 24, 2007. See http://news.xinhuanet.com/newscenter/2007-10/24/content_6938568_10.htm

⁴⁵ Wang, Jisi. "China's Search for a Grand Strategy-A Rising Great Power Finds its Way." *Foreign Affairs*. 90 (2011): 68.

reconcile the twin objectives of economic development and maintaining the Party's control over its domestic affairs is a critical question underpinning China's dealings with foreign actors.

Complicating the matter further is China's own bitter history of humiliation and victimization by foreign powers starting the Qing Dynasty. The Chinese phrase of 内忧外患 captures the intertwinement of internal and external troubles that brought down empires after empires in China's long history.⁴⁶ As a result of this bitter past, Chinese leaders exhibit a heightened sensitivity toward domestic instability caused by foreign threats.⁴⁷ The resulting doctrine of self-reliance and the primacy of state sovereignty remain deeply ingrained in the Chinese psyche, yet the acute need to modernize and to integrate into the world is equally imperative for China's prosperity. Consequently, Chinese leaders accept foreign influences in its domestic politics as an inevitable consequence of reform and opening-up, but treat such influences with extreme caution.⁴⁸

In this context, Chinese leaders view international organizations – especially those that promote China's economic development but without a political agenda – especially appealing. There is a growing consensus in both the policy arena and the academic circle that international regimes and institutions promote rather than

⁴⁶ Shambaugh, David. "Coping with a conflicted China." *The Washington Quarterly* 34.1 (2011): 7-27.

⁴⁷ Shirk, Susan L. *China: fragile superpower*. Oxford University Press, 2008.

⁴⁸ This dilemma is best captured in Deng Xiaoping's words: when one opens the window, fresh air will come in, but flies will also come in. See also Kent, Ann E. *Beyond compliance: China, international organizations, and global security*. Stanford University Press, 2007.

constrain China's national goals and interests; China looks to IOs to protect and project its sovereignty, to enhance its international prestige, to reduce external suspicion of China's intentions, to maintain its strategic independence, to preserve an peaceful external environmental conducive for domestic development, and above all, to promote developmental goals through foreign investment, trade, technology transfer and development assistance.⁴⁹ Indeed, because of the various IO functions described in the previous section, China has been one of the strongest advocates, at least rhetorically, of multilateralism in general and the United Nations system in particular.⁵⁰

However, as David Shambaugh pointed out, the Chinese notion of multilateralism is different from the Western notion in that China views it as a tool and a tactic rather than an intergovernmental mechanism or institutional arrangement.⁵¹ Similarly, Samuel Kim observed that China in the post-Mao era adopted a neo-functionalist and instrumentalist approach on IOs, treating them as cost-effective "filling stations" for China's accelerated modernization drive.⁵² Kim, writing in the early 1990s, argued that China's behavior towards IOs followed a "maxi-mini approach", maximizing the benefits of participation through

⁴⁹ Sutter, Robert G. *Chinese foreign relations: Power and policy since the Cold War*. Rowman & Littlefield Publishers, 2012. And Economy, Elizabeth, and Michel Oksenberg, eds. *China joins the world: progress and prospects*. Council on Foreign Relations, 1999.

⁵⁰ Shambaugh, David. *China Goes Global: The Partial Power*. Oxford University Press, 2013.

⁵¹ Ibid.

⁵² Kim, Samuel S. "International organizations in Chinese foreign policy." *The ANNALS of the American Academy of Political and Social Science* 519.1 (1992): 140-157.

“state-enhancing” functionalism and minimizing normative costs.⁵³

One such tactic, notes Ann Kent, is ambiguity, whereby China tends not take a firm stance in international forums but rather invokes whichever aspect of its complex identity is best suited its interests.⁵⁴ For example, China frequently cites its “developing country identity” to eschew making binding commitments to climate change mitigation, but evokes its “great power identity” to justify caution in reforming the Security Council. Because of this apparent inconsistency, China is sometimes criticized for being a “free rider” of international “public goods” – a perception China firmly rejects.⁵⁵ Other scholars note that despite its increasing involvement with IOs, China is still uncomfortable working in multilateral frameworks, preferring instead bilateral or *ad hoc* multilateral means of resolving conflicts.⁵⁶

Yet more recently, China scholars increasingly argue that the realism and instrumentalism that characterized China’s approach to IOs in the 1980s and 1990s is giving way to a less material approach. For example, both Shambaugh and Chin argue that the phase of “institutional integration” is over and now a new phase of

⁵³ Ibid.

⁵⁴ Kent, Ann E. *Beyond compliance: China, international organizations, and global security*. Stanford University Press, 2007.

⁵⁵ Shambaugh, David. "Coping with a conflicted China." *The Washington Quarterly* 34.1 (2011): 7-27. And 王逸周,《磨合中的建构: 中国与国际组织关系的多角度透视》中国发展出版社, 2003。(Wang, Yizhou. *Construction in Contradiction: A multi-angle analysis of China's relations with international organizations*. China Development Press, 2003)

⁵⁶ Wang, Jisi. "International relations theory and the study of Chinese foreign policy: A Chinese perspective." *Chinese Foreign Policy: Theory and Practice*, Clarendon Press, Oxford (1994): 481-505. And Sutter, Robert G. *Chinese foreign relations: Power and policy since the Cold War*. Rowman & Littlefield Publishers, 2012.

“normative integration” had opened.⁵⁷ They suggest that China’s integration with the world is only partially complete via institutional integration, and that deeper integration in the social constructivist sense is yet to be seen. Other scholars are more sanguine, however, observing that China’s long-standing perceptions on issues ranging from sanctions to Responsibility to Protect (R2P) have begun to converge with Western ones partly as a result of deeper participation and partly due to China’s growing international interests.⁵⁸ But whether China can be socialized into taking greater responsibilities in areas where it does not have an immediate material interest is subject to debate. A litmus test of China’s internalization of such norms is whether China behaves like a “responsible stakeholder”, the idea that China should go beyond being a beneficiary of the global liberal system to becoming a contributor to it.⁵⁹

1.4 Gaps in existing literature and contribution of this study:

This thesis is part of this ongoing trend of viewing China-IO interactions from non-material, or social, perspectives, but unlike the current trend that focuses

⁵⁷ Shambaugh, David. *China Goes Global: The Partial Power*. Oxford University Press, 2013. And Chin, Gregory. "Two-Way Socialization: China, the World Bank, and Hegemonic Weakening." *Brown Journal of World Affairs*. 19 (2012): 211.

⁵⁸ Reilly, James. "China's unilateral sanctions." *The Washington Quarterly* 35.4 (2012): 121-133. And Sutter, Robert G. *Chinese foreign relations: Power and policy since the Cold War*. Rowman & Littlefield Publishers, 2012. And Johnston, Alastair I. *Social states: China in international institutions, 1980-2000*. Princeton University Press, 2008

⁵⁹ This phrase was coined by then-Deputy Secretary of State Robert Zoellick in 2005, who later became the president of the World Bank in 2007.

on the prescriptive question of “what China should do for IOs in the future”, this thesis examines the descriptive question of “how IOs have influenced China in the past.” For this study, the relevance of constructive theories is particularly important insofar as the World Bank provided an opening China with a crucial window to the global financial regime dominated by capitalist identities and ideologies. Specifically, this thesis seeks to shed light on the extent to which and conditions under which social influences from the World Bank have affected China’s economic reforms since 1980.

This research agenda has, until recently, received surprisingly little scholarly attention. Despite a growing body of literature on social constructivism since the late 1990s, past research in socialization had focused almost solely on European integration.⁶⁰ To become a truly mainstream IR theory, social constructivism ought to go beyond its current euro centrality and engage in issues on China. On the other hand, current literatures that *do* focus on China-World Bank relations takes either a historical approach, as in Bottelier and Jacobson,⁶¹ or an international law perspective, as in Kent.⁶² As a result, few, if any, scholarly works to date have

⁶⁰ See Checkel, Jeffrey T. "International institutions and socialization in Europe: Introduction and framework." (2005): 801-826. And Gheciu, Alexandra. "Security institutions as agents of socialization? NATO and the 'New Europe'." 59.4 (2005): 973-1012.

⁶¹ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of Contemporary China* 16.51 (2007): 239-258. And Jacobson, Harold Karan. *China's participation in the IMF, the World Bank, and GATT: toward a global economic order*. University of Michigan Press, 1990.

⁶² Kent, Ann E. *Beyond compliance: China, international organizations, and global security*. Stanford University Press, 2007.

adequately explained China's involvement in the World Bank from a social constructivist perspective.

In a pioneering effort to bridge this gap, Iain Johnson looks at how social constructivism can be applied to China's relations with various international regimes. Iain Johnston finds that Chinese international behavior is socially influenced.⁶³ As such, China will conform to international norms even to the point of "mimicking" the behavior of other states. He also identifies persuasion and social influence as two other "microprocesses of socialization".⁶⁴ But even so, the gap still exists. As mentioned above, most scholarly attention has focused on effects of international socialization on *international policies*. Iain Johnson similarly examined China's behavior on the *international level*, namely, China's foreign policy towards international security institutions. However, this thesis argues that the effects of international socialization go much deeper. A unique contribution of this study is on how socialization provides mechanisms by which international organizations affect *domestic* economic policies, *domestic* economic policy-making processes, and *domestic* economic institutions. In other words, this thesis does not seek to differentiate itself from Iain Johnson's work along subject-matter lines, namely security issues versus economic issues, but instead along those of levels of analysis, namely international versus domestic levels.

⁶³ Johnston, Alastair I. *Social states: China in international institutions, 1980-2000*. Princeton University Press, 2008.

⁶⁴ Ibid.

Iain Johnson justifies his selection of security institutions by noting that China's traditional realpolitik security orientation constitutes a "least likely" case, and thus a hard test for counter-realpolitik socialization. To the same effect, this thesis observes that the domestic policy discourse over China's economic reforms is far less homogenous than China's seemingly linear reform path may suggest. In fact, behind closed doors, policy makers differ substantially on the pace and even the direction of economic reforms; faced with growing economic inequality, pro-market liberals advocate for more complete liberalization, but pro-state conservatives argue for a partial return to Maoist socialism. This internal division makes economic reforms particularly susceptible to external influences, especially those from the World Bank. Although the World Bank is an operational organization, its lending practices and knowledge services have far-reaching normative implications: essentially the World Bank embodies a liberal normative structure. Therefore the case presented here constitutes a hard test for socialization in the domestic economic arena.

This study will build upon Iain Johnson's work and expand the burgeoning socialization discourse to China and to domestic economic areas. Specifically, by documenting the World Bank's involvement in China's reform process and observing changes and consistencies therein, this study will give further explanatory power to social constructivism. Borrowing social psychology insights in conformity, compliance and group influence, the thesis embodies the

interdisciplinary spirit of IR and is part of an ongoing effort to integrate various disciplines to explain real-world problems, as exemplified by Iain Johnson's *Social States*.

It must be acknowledged, however, that it is extremely difficult to measure influence, discern motives and above all, sort out cause and effect. China's policy-making processes, especially in the early periods, are extremely opaque. Detailed documents are far and few between. Moreover, with the welter of foreigners that have sponsored projects in China and showered Chinese leaders with advice, it is difficult to pinpoint the influence of a single external agent.

Despite these difficulties, it is still possible to substantiate claims with concrete evidence. As scholars on this body of literature have found out, the best available methodology is a combination of documentary analysis and interviews with key actors, in this case those in the World Bank, the Chinese government as well as in the academia. Interviewees' accounts of past events in which they were closely involved form a cornerstone of my empirical investigation.

This study also benefits from the World Bank's Open Data Initiative of 2010, which released a vast amount of information that was previously inaccessible to researchers. Researchers can now access more information than ever about World Bank projects, its analytical and advisory activities, and proceedings of its Executive Board. Such new information, together with the numerous reports that the World Bank already publishes, provides a strong basis for this study's archival research.

Chapter 2: History: China's long march to World Bank membership

In 2010, at the thirtieth anniversary of the China-World Bank relationship, World Bank president Robert Zoellick praised the “historic partnership” as “one of the most successful engagements of the World Bank Group.”⁶⁵ Indeed, by lifting more than 600 million people out of poverty from 1981 to 2008,⁶⁶ China’s modernization efforts alone have ensured that the Millennium Development Goals on overcoming poverty will be met. Yet, one should not take such an achievement for granted, as China’s decision to engage the World Bank did not come lightly and the partnership was not forged easily. This chapter will contextualize current China-World Bank relations in a broader historical narrative of China’s reform and transition from a planned economy to a market economy.

The facts of China’s remarkable economic growth and poverty reduction during the past thirty-five years are better known than the underlying efforts and struggles. There are no close parallels in human history for China’s incremental and experimental transition from plan to market. The process was set in motion at the Third Plenary Session of the 11st Central Committee of the CCP in December 1978 when Deng Xiaoping had emerged as the preeminent leader and persuaded fellow

⁶⁵ Zoellick, Robert, Op-ed: A Constructive Role with China, China Daily (September 13, 2010) <http://www.worldbank.org/en/news/opinion/2010/09/13/op-ed-constructive-role-china>

⁶⁶ As measured by the benchmark of US\$1.25 per day in 2005 PPP terms. See IBRD, IFC and MIGA (2012), *World Bank Country Partnership Strategy for the People's Republic of China for the Period of FY2013-FY2016*, Washington DC.

leaders to adopt a fundamental paradigm shift in the direction of China's development.⁶⁷

A more comprehensive national reform agenda did not emerge until late 1993; a year after the Fourteenth Party Congress adopted the "Socialist Market Economy" as a conceptual framework for China's development. In the meantime, the reform process deepened and became increasingly self-propelled, driven by market forces and international commitments, including China's accession to the World Trade Organization in December 2001. China's unique approach to managing its economic transition and development is sometimes referred as the "Beijing Consensus" approach. While the exact meaning of this term is still in flux, the term is mainly used to contrast China's pragmatic, incremental and institution-oriented approach with the "Washington Consensus" approach commonly associated with Bretton Woods Institutions that favor policy-oriented quick liberalization.⁶⁸

China's reform process was facilitated by proactive relationships with multilateral agencies, including the World Bank and the International Monetary Fund (IMF). Both institutions provided unique opportunities for China to learn from the experience of other countries in a professional and politically neutral international setting.

⁶⁷ An excellent description of China's unique approach to reform can be found in Thomas G. Rawski, *Reforming China's Economy: What have we learned?* The Chinese Journal, No.41, January 1999.

⁶⁸ For Ramo's original proposition of the Beijing Consensus, see Ramo, Joshua Cooper. *The Beijing Consensus*. London: Foreign Policy Centre, 2004. For criticisms, see Kennedy, Scott. "The myth of the Beijing Consensus." *Journal of Contemporary China* 19.65 (2010): 461-477. And Huang, Yasheng. "Rethinking the Beijing consensus." *Asia Policy* 11.1 (2011): 1-26.

Although the People Republic of China (PRC) formally joined the World Bank as late as in 1980, its informal connections with the World Bank dates far back to the institution's founding. As an Allied Power, the Republic of China (ROC) had been a founding member of both the World Bank and the IMF in 1945 and had been given a powerful position at the Bretton Woods Conference. There, because President Roosevelt had promised wartime ally China that its quotas in the IMF would rank fourth, China's IMF quota of US\$ 550 million, which determined its voting power in the World Bank, exceeded that of France by US\$ 100 million. Such a power position was based on the legal position that the ROC was the representative of Mainland China, since it depended on the generous reading of the size of the mainland's, rather than Taiwan's economy. From that time until 1980, the ROC, on the tiny island of Taiwan, acted as the official representation of China in both the World Bank and the IMF.

In 1950, the newly established PRC sought to be recognized as the successor government and to have its representatives seated as the delegates of China in the UN and many of its specialized agencies including the IMF and the World Bank, but Sino-U.S. animosity over the Korean War, the Taiwan presence in the UN and its affiliated agencies, and repeated rejection of PRC membership in the UN had precluded serious consideration by Beijing of membership in UN-affiliated membership until 1971, when the PRC finally replaced Taiwan in the United

Nations.⁶⁹

In 1972, Bank of China set up a small group to analyze the possibility of joining the IMF and the World Bank. Further opportunities arose in the same year when Taiwan's presence in the Fund and the Bank was reduced by its own inaction: Taiwan had lost its right to appoint its own executive director in 1960 because of its decline in the relative size of its quota and subscription and, starting in 1972, had lost representation on the board altogether.⁷⁰

China's first direct engagement with the World Bank occurred in September 1973. Just before the annual meetings of the boards of governors of the Fund and the Bank, Chinese Minister of Foreign Affairs telegraphed the managing director of the Fund and the president of the Bank to expel the "KMT counterrevolutionary clique"⁷¹ Although the political climate in the United States did not allow a more forthcoming response, World Bank president Robert McNamara did acknowledge this signal on November 2, 1973, by sending a telegram to Beijing stating that an application from China to the World Bank would be welcome.

According to McNamara's biography, he was strongly interested in having China in the Bank. He felt that the Bank's function was to be a development organization and believed that China needed assistance. Because of China's size and importance,

⁶⁹ Jacobson, Harold Karen and Oksenberg, Michel. *China's participation in the IMF, the World Bank, and GATT: toward a global economic order*. University of Michigan Press, 1990

⁷⁰ Ibid.

⁷¹ Xie Qimei and Wang Xingfang, eds., 中国与联合国：纪念联合国成立五十周年 (China and the United Nations: commemorating the fiftieth anniversary of the founding of the United Nations) 北京：世界知识出版社，1995

McNamara felt that the Bank did not truly deserve its name without the participation of China; he also felt that China's membership and obvious needs would be a lever for increasing the Bank's resources.⁷² The major challenge for McNamara, however, was how to bring about China's participation without creating controversy that would deeply divide the Bank's membership. He was particularly concerned about the United States, the Bank's largest shareholder and Taiwan's most powerful advocate. Despite the opening to China, the Nixon administration was reluctant to advance the new relationship with China at the expense of Taiwan. Therefore, U.S. opposition effectively blocked McNamara for several years from opening negotiations with China or attempting to bring the matter of Chinese representation to a vote.

China never responded to McNamara's invitation, although the matter was considered internally. A June 1974 report by the Ministry of Finance (MoF) and Ministry of Foreign Affairs (MoFA) recommended China against joining the World Bank for two reasons. First, the ministries were concerned that, if China was to inherit Taiwan's voting shares, it would only have 1.68 percent of the total votes in the IMF and 2.83 percent in the World Bank – too insignificant for China to pursue any meaningful foreign policy objectives. The primary objective was, of course, to circumvent the Soviet Union, which was not even a member of either institution.

⁷² Shapley, Deborah. *Promise and power: The life and times of Robert McNamara*. Boston: Little, Brown, 1993.

The secondary objective – opposition of U.S. hegemony – also seemed ill fated given China’s lack of voting shares. Second, the ministries asserted that the Articles of Agreement of the IMF not only contradicted a socialist monetary system but also undermined China’s time-honored policy of self-reliance. In accordance with the policy against external borrowing, China would never borrow from the Bank or the Fund, but it still would have to pay its quotas.⁷³

China’s final decision to join the World Bank was made in 1979 and was the result of a convergence of two separate trajectories. Externally, the seven-year process of rapprochement with the U.S. had made commercial and trade ties with the West and Japan increasingly conceivable by 1979. Internally, the sweeping changes in domestic politics following Mao’s death and the elimination of pro-Cultural Revolution elements in the Chinese leadership cleared the ideological barriers for Deng Xiaoping’s reform and opening up agenda of December 1978. A convergence of these trends meant that, unlike the Maoist era of the 1960s and 1970s, a significant foreign involvement in China’s development became conceivable. In January 1979, a report to China’s top leaders suggested that overall situation favored quick action.⁷⁴

Sources suggest that China’s initial motives behind involvement were almost entirely instrumental, and the final decision was based on seven years of

⁷³ Kent, Ann E. *Beyond compliance: China, international organizations, and global security*. Stanford University Press, 2007.

⁷⁴ Jacobson, Harold Karen and Oksenberg, Michel. *China's participation in the IMF, the World Bank, and GATT: toward a global economic order*. University of Michigan Press, 1990

deliberation and calculation of costs and benefits of membership.⁷⁵ Membership of the Bank was a logical extension of its UN membership; it would enhance China's international prestige and would entail the expulsion of Taiwan. Membership would also strengthen China's bilateral relations and facilitate access to information on international finance and economics, as well as to World Bank concessional loans – a significant source of finance at the time. Finally, it would strengthen the hand of reformers in the Chinese leadership. At the same time, China was also aware of the onerous obligations it would incur upon entry. It would have to disclose highly confidential economic and financial data and would have to receive frequent World Bank missions that seek information. And it would have to make large financial contributions to meet World Bank subscriptions.

In April 1980, McNamara personally led the Bank's first mission to China, during which both sides defined the breath and depth of the relationship. The World Bank delegation agreed to China's request for project assistance, technical assistance, and broad, strategic advice. They also decided to increase China's voting shares and, as in the case of the IMF, agreed that it would constitute a single-state constituency and be represented by its own Executive Director on the Board of the Bank.⁷⁶ Thus,

⁷⁵ Jacobson, Harold Karen and Oksenberg, Michel. *China's participation in the IMF, the World Bank, and GATT: toward a global economic order*. University of Michigan Press, 1990

⁷⁶ Key World Bank policies are decided by the Governors or Alternate Governors, who meet twice a year and are elected by each member state. The bulk of their responsibilities, however, are delegated to the board of Executive Directors. The five largest shareholders, the United States, Japan, the United Kingdom, France and Germany, each appoint an Executive Director, while the remaining member-states are represented by nineteen Executive Directors elected by groups of countries. Of these, only China, Russia, Costa Rica, and Saudi Arabia have formed single-country constituencies.

China was given 12,250 votes in the International Bank of Reconstruction and Development (IBRD, the core of the World Bank Group), or 2.84 percent of the total; 4,404 votes in International Financial Corporation (IFC, the World Bank's private sector lending arm), or 0.83 percent of the total; and 91,311 votes in International Development Agency (IDA, World Bank's concessional fund for the poorest countries).

The change in China's representation was arranged with extraordinary speed. A few weeks after McNamara's return from China, the Board approved Beijing's request. China's accession to the World Bank would probably have taken much longer was it not because of McNamara taking personal charge of the matter for reasons noted above. Importantly, McNamara brushed aside opposition from the United States Treasury and some members of Congress about an early return of the PRC to the World Bank, and used his considerable political skills to expedite the membership process, which would otherwise have taken a long time.⁷⁷ From the very start, the Bank had established itself as an independent international institution, where the US had a leading but not decisive role. As the next chapter will demonstrate, politically neutral postures like this proved critical for building trust with Chinese leaders.

From exclusion to inclusion, China's persistent bid for World Bank membership

⁷⁷ Kraske, Jochen, ed. *Bankers with a mission: the presidents of the World Bank, 1946-91*. World Bank Publications, 1996.

and its eventual acceptance was significant for both China and the Bank. As McNamara rightly noted, China's membership has moved the Bank towards achieving universal membership, and thus more deserving of its name. It was particularly important at a time when the Bank's legitimacy and effectiveness had come under increasing criticism.⁷⁸ For China, its membership in the one of the most important international economic institutions provided a huge confidence boost for domestic reformers and the reform agenda they stood for. It also lent prestige to a China that had just opened up. In short, both parties benefited from this mutually legitimating outcome – one that leaders from both sides had invested a great deal of political capital in. Now they needed to make this partnership work. The next chapter will analyze how interactions after 1980 became an added ingredient of change on both sides.

⁷⁸ See Krasner, Stephen, *Structural Conflict: The Third World Against Global Liberalism*. University of Berkeley Press: 1985

Chapter 3: Empirical Evidence and Analysis

The World Bank has been the major IO assisting China's economic development.⁷⁹ The early work of the Bank's China Department, the excellence of its knowledge and expertise, and the professionalism of its reports, had, in the words of a former official, "probably not been matched in any other substantial geographical region."⁸⁰ The breadth and depth of the relationship grew so fast that by mid-1990s, China became the Bank's largest borrower and major success story and the Bank became China's largest single source of long-term foreign capital.⁸¹ In the early 21st century, China has gone beyond a recipient country and has expanded its influence inside the Bank.

This chapter provides empirical evidence on the impact and consequences of China's membership and participation in the World Bank since 1980. Undoubtedly, as a communist state with a planned economy, China in 1980 constituted a "least likely case" for successful participation in the World Bank,⁸² and such a process indeed involved numerous adjustments. However, as I will demonstrate in this chapter, such adjustments have been *mutual*: while China has been socialized into

⁷⁹ Zweig, David. *Internationalizing China: domestic interests and global linkages*. Cornell University Press, 2002.

⁸⁰ Kent, Ann E. *Beyond compliance: China, international organizations, and global security*. Stanford University Press, 2007.

⁸¹ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of Contemporary China* 16.51 (2007): 239-258.

⁸² Kent, Ann E. *Beyond compliance: China, international organizations, and global security*. Stanford University Press, 2007.

the world of multilateral finance and development, the World Bank also had to tailor its assistance strategies to China's unique development needs.

3.1 Impact of Lending

By any measure, the size of World Bank's lending to China represents a significant share of the Bank's portfolio. As of June 30, 2013 (the last day of World Bank's FY2013), the International Bank of Reconstruction and Development (IBRD, the World Bank's main fund for the middle-income countries) and the International Development Agency (IDA, the World Bank's soft loan window for the least developed countries) together have cumulatively lent China US\$52.4 billion for 363 projects, behind India (US\$93.1 billion for 552 projects), Brazil (US\$56.3 billion for 391 projects) and, to a much less extent, Mexico (US\$52.9 billion for 237 projects) (see Figure 1).

Figure 1: Top 5 Recipients of IBRD and IDA Lending⁸³ | FY 1945–2013 Cumulative⁸⁴

⁸³ Effective fiscal 2005, lending includes guarantees and guarantee facilities. Supplemental and additional financing operations (except for projects scaled up through additional financing) are not counted as separate lending operations, although they are included in the amount.

⁸⁴ Joint IBRD-IDA operations are counted only once, as IBRD operations. When more than one loan is made for a single project, the operation is counted only once. Commitments in regional projects are classified in this table as regional projects and are not counted as commitments of the individual countries involved under the regional project.

(In Billions of US dollars)

Country	IBRD		IDA		IBRD-IDA	
	Number	Amount	Number	Amount	Number	Amount
Brazil	391	56.268			391	56.268
China ⁸⁵	292	42.445	71	9.947	363	52.392
India	243	48.663	309	44.474	552	93.137
Indonesia	313	45.423	53	2.875	366	48.299
Mexico	237	52.859			237	52.859
Total	5,847	586.201	5,406	268.500	11,253	854.701

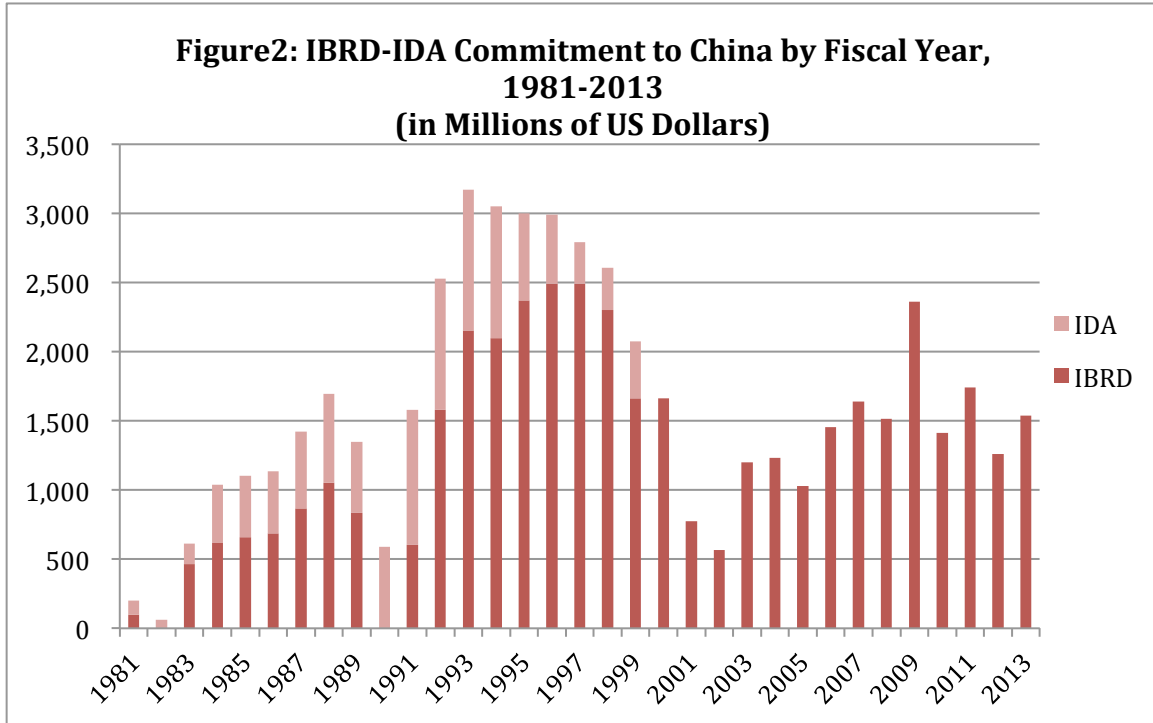
Source: World Bank annual report 2013.

However, aggregate numbers in lending mask dramatic variations over the years as well as the shifting composition of loans. As the chart below shows, the World Bank started lending to China with modest amounts in the 1980s, reflecting caution partly as a result of China's economic retrenchment to cool down the overheating economy in the early 1980s. A low point came when the Bank temporarily suspended new IBRD commitments in the wake of the Tiananmen Incident of June 1989, but continued to provide IDA funds. Total loan commitments increased dramatically in the early 1990s and sustained at a high level throughout the decade. Average annual commitment during this decade topped US\$2,500

⁸⁵ Lending to China does not include lending to Republic of China prior to 1980.

million.

In the 21st century, however, Bank lending assumed a smaller profile and the Bank played a different role as China became increasingly sophisticated and resourceful. By the late 1990s, it became increasingly clear that China had far greater capacity, international experience and access to alternative sources of capital than it was in the 1980s. The watershed event came in 1999, when China was judged to be wealthy enough to do without IDA funds. China subsequently stopped receiving IDA funds in FY2000. In fact, the proportion of IDA loans in total World Bank loans had been gradually declining throughout the 1990s. Partly due to China's graduation from the IDA, World Bank loans to China have decreased to average US\$1,500 million per year in the past ten years (See Figure 2).



Source: World Bank annual report, various years.

However, the size of World Bank loans to China is a rather poor indicator of the health of the relationship. I use two examples to show that no linear relationship exists between the amount of lending and the health of the relationship. The first example is China's graduation from IDA in 1999, which indeed had a negative impact on the relationship. But the second example of 1989 Tiananmen incident had a negative impact on lending but a much more positive impact on trust, which is arguably more important than lending *per se*.

Case Studies: IDA Graduation VS. Tiananmen Incident

Following a decade of high-volume lending to China, IDA donors decided in the late 1990s that China was sufficiently creditworthy to dispense with IDA funding. This came as a blow to China. Previously, the Chinese government was already reluctant to accept a departure from the 50/50 blend of IBRD/IDA loans to a harder blend (higher proportion of IBRD loans in the IBRD/IDA mix). The Chinese government thought this loss of IDA privileges unfair because China's per capita GDP was still below the IDA threshold at that time and because there were still more than 200 million Chinese with consumption below a dollar per day.

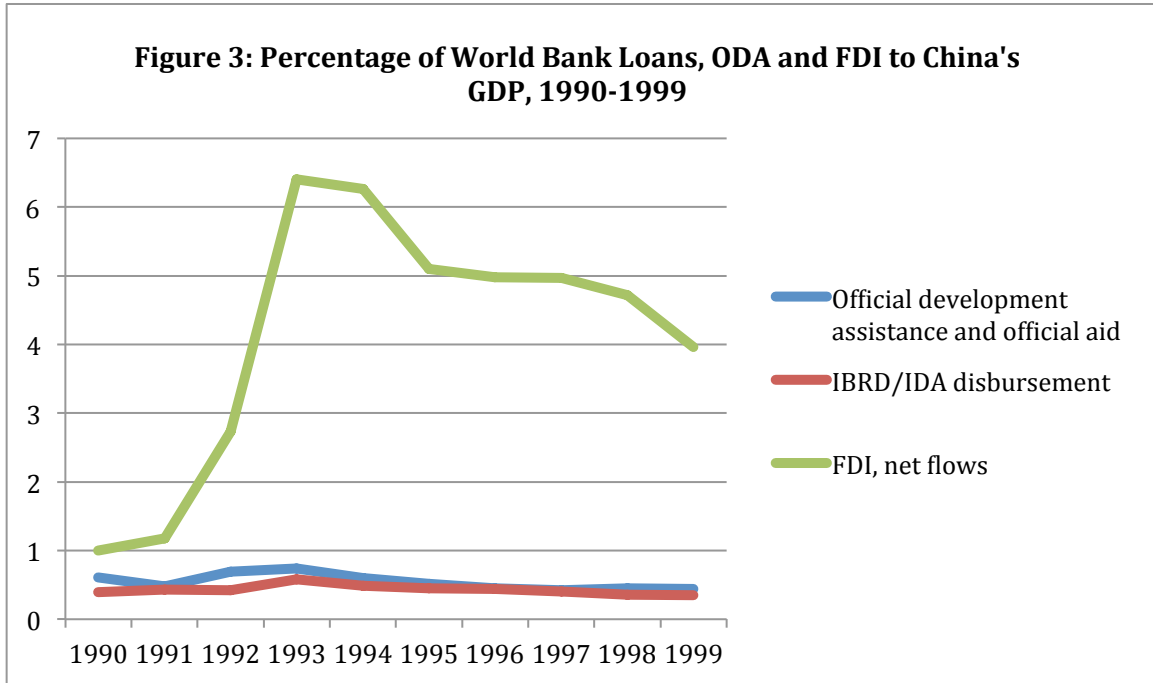
Moreover, under China's unique loan repayment structure, local stakeholders are responsible for repayment. While this provided incentives for individual farmers to best use Bank loans, it also put extra burden on them when funds were on IBRD, rather than IDA, terms. As a result of the loss of IDA privileges, the government decided that the Bank would be largely excluded from lending to poor provinces or the social sector because IBRD terms would be too onerous. Chinese officials were disappointed that Bank's senior management did not fight

harder to retain China's IDA privileges. The World Bank admits in an independent evaluation that the loss of IDA put a great deal of strains on the relationship. Partly due to this incident, Bank's lending to China dipped after FY2000, only to recover in FY2002 (See Figure 2).

A contrasting example is the aftermath of the 1989 Tiananmen incident. Following the bloody crackdown, the Board of Executive Directors was deeply divided over the implications for Bank strategy. At the behest of the G-7, the Bank deferred lending to China.¹ Yet, the Bank resisted US prodding to make future loans conditional on China's civil and political rights, arguing that its proper role was to advance the economic human rights of the poor.¹ Bank president Barber Conable even authorized the dispatch of a small high-level mission to Beijing within weeks of the crackdown to discuss how the reform momentum might be maintained. At the time when Western countries had imposed sanctions and travel bans on China, the World Bank mission was the first group of Westerners to visit China after the incident. President Conable pushed the Board to resume lending over the opposition of some shareholders, and lending quickly built up to higher levels than before (See Figure 2). This overture reportedly cemented the Bank-China relationship more than any loan could have done and the Bank emerged from the incident as a trusted advisor with even higher prestige.

The contrasting outcomes from the two examples above demonstrate that a lower lending volume may not necessarily mean bad relationship, making the size of lending a rather poor benchmark to rely on.

Furthermore, the relative size of World Bank loans seems outright negligible for China. As noted above, The Bank's lending was modest for a country the size of China - US\$ 3.3 billion (0.6 percent of GDP) at its peak in FY1993. Figure 3 compares the relative size of World Bank lending with that of official development assistance (ODA) and foreign direct investment (FDI) in the decade where World Bank lending to China was the largest. Even so, World Bank lending still seems paltry. Even more strikingly, during 1991-2000, the World Bank as an international development institution lent *less* than Japan did. During that decade, IBRD and IDA together accounted for 17.7% of China's net receipts from donors; Japan accounted for 24.9% (See Figure 4).



Source: China Bureau of Statistics

Figure 4: China's Net Receipts from World Bank VS. from Japan (1981-2000)

In Million US\$

	1981-1990	1991-2000
IBRD	2,392	8,787
IDA	2,643	6,488
World Bank total	5,035	15,275
Japan	13,923	21,460

Source: OECD

Of course, the impact of World Bank lending should not be evaluated based solely on size of the loans. In fact, the Bank's financial contribution had an impact greater than its quantitative size would suggest. First, Bank lending to specific geographic areas had a sustained, cumulative impact over time. For instance, poorer provinces such as Sichuan benefited from more than US\$4 billion for more than 60 projects. Second, for much of the 1990s, China's reserves were still recovering from their near depletion in the early 1990s, so that during much of the decade foreign exchange was, in fact, an issue. Third, while Bank lending is small when viewed from a national level, its beneficiaries were the subnational governments, which had major fiscal and foreign exchange access issues in much of the 1990s.⁸⁶

But still, while the impact of the World Bank's lending program was more evident in the 1990s and in specific geographic areas, its overall impact on China in the 21st century has surely become more amorphous. The crucial questions are: How does the World Bank influence China if lending is not the main instrument? How does the World Bank leverage small lending amount to produce a much bigger policy outcome – especially the kind of organizational, ideational, and material adjustments in China's foreign policy identified in Jacobson and Oksenberg's pioneering work?⁸⁷

⁸⁶ Tidrick, Gene. *China: an evaluation of World Bank assistance*. World Bank Publications, 2005.

⁸⁷ Jacobson, Harold Karen and Oksenberg, Michel. *China's participation in the IMF, the World Bank, and GATT: toward a global economic order*. University of Michigan Press, 1990

3.2 Impact of Persuasion and Demonstration

Unlike its sister organization the IMF, the World Bank's mode of operation is to engage in dialogue rather than to impose conditions, to convince rather than demand.⁸⁸ In contrast with the IMF, the World Bank lends in smaller amount over a longer period of time, and manages individual projects from start to finish. This means that while the Fund's relationship with its member countries is transactional in nature, the Bank's relationship with its membership countries resembles a long-term partnership. Importantly, the need for *repeated* interactions with its client states meant that the Bank must build mutual trust and display sensitivity and flexibility towards the client's particular needs. Indeed, the World Bank does not try to achieve its objectives through the direct impact of its lending or through conditionality. Rather, it relies on such social influences as persuasion and demonstration. According to the World Bank, these include a dual-track approach:

- 1) Building trust through lending while promoting policy dialogue through sector work and
- 2) relying on the demonstration effect of successful project experience in introducing new technologies, management methods, or policy reforms to leverage policy outcomes.⁸⁹

Persuasion and demonstration take place in virtually all World Bank activities in

⁸⁸ Tidrick, Gene. *China: an evaluation of World Bank assistance*. World Bank Publications, 2005.

⁸⁹ Ibid.

China. From the top-down, the Bank persuades senior officials and their policy advisors to implement pro-market system-wide reforms. This is carried out through Economic and Sector Work (ESW), workshops, training programs, joint studies, and Analytical and Advisory Activities (AAA). From the bottom-up, the Bank relies on the demonstration effect of successful project experience in introducing and diffusing new technologies, management methods, or policy reforms to broaden the impact of individual projects. Adopting Cortell and Davis's analytical framework identified in the literature review section, I group the consequences of such channels of influence into: 1) impact on institutions; 2) impact on policies, and 3) impact on policy processes.

3.2.1 Impact on Institutional Capacity

Capacity building has been a central focus on the World Bank's country partnership strategy and China's involvement in the World Bank has had a significant impact on the institutional landscape in China. Immediately following its assumption of World Bank membership, the Chinese government assigned the MoF as the primary agency dealing with the World Bank. The Ministry quickly built an administrative structure that mirrored the organization of the China Department in the World Bank in Washington. A World Bank Department was created to house the following four divisions. Division One studies World Bank policies, prepared for

annual meetings in Washington, and arranged missions from top World Bank officials. Division Two manages social, agricultural, health, and educational projects. Division Three is in charge of industrial infrastructure projects. Division Four is concerned with financial matters, especially repayment of loans.⁹⁰ China is the only large borrower to have created such a department.⁹¹

Furthermore, the State Planning Commission (since 2003 the powerful National Development and Reform Commission) also played a key role in the relationship, particularly in defining project priorities. This ensured that the Bank's program became an integral part of China's development plan. Additionally, the MoFA's Department of International Organizations oversees the diplomatic aspect of the relationship. Aside from these core ministries, the line ministries that receive World Bank funding also saw congregations of specialists in a special section or office of that ministry for World Bank activities. Thus, the ministries of health, agriculture, and education, among others, all developed a small core of personnel who were increasingly familiar with Bank practices.⁹²

Yet the bulk of the Bank's activities occur at a local level, and it was the local governments that saw the most widespread change. From the mid-1990s, there was a World Bank office in most of China's 2,856 counties and county-level governments;

⁹⁰ For detailed organizational structure, see

http://gjs.mof.gov.cn/pindaoliebiao/guanyuwomen/jigoushezhi/200807/t20080731_60012.html

⁹¹ Lardy, Nicholas R. "China and the international financial system." *China Joins the World: Progress and Prospects* (1999): 206-230.

⁹² Kent, Ann E. *Beyond compliance: China, international organizations, and global security*. Stanford University Press, 2007.

about 10,000 Chinese citizens were involved in administrating and supervising its programs, and about ten times that number were employed on the actual projects and studies at any one time.⁹³ And average disbursements for Bank/IDA supported projects amounted to some US\$10 million on a typical working day.⁹⁴ One senior World Bank official remarked, “[f]ew, if any member countries, equipped themselves so purposefully and so effectively at all levels for dealing with the World Bank as China did.”⁹⁵ From China’s perspective, no other external agency had established as wide a range of contacts in China.⁹⁶

Moreover, the Bank is also directly involved in institutional building. The State Audit Department, for example, was initially created to audit the accounts of World Bank-financed projects in China in accordance with the Bank’s economic, technical, accounting and engineering standards. Today, the modest department has evolved into the ministry-equivalent National Audit Office with a constitutional mandate to audit all public finances.⁹⁷ Another landmark institutional creation is China International Capital Corporation (CICC), China’s first international investment bank. CICC was first started as a financial sector reform initiative to disburse funds provided by the World Bank, with the World Bank’s then Chief of Mission Edwin Lim

⁹³ Ibid.

⁹⁴ Ibid.

⁹⁵ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of Contemporary China* 16.51 (2007): 239-258.

⁹⁶ Jacobson, Harold Karan. *China's participation in the IMF, the World Bank, and GATT: toward a global economic order*. University of Michigan Press, 1990.

⁹⁷ For a detailed description of the National Audit Office’s constitutional mandate and duties, see http://www.cnao.gov.cn/main/AboutUs_ArtID_726.htm

serving as the founding CEO. It pioneered a new method of commercial lending directly to enterprises: It not only disburses foreign currency loans to finance imports of technology and capital goods, but also provides domestic currency loans to finance the local counterpart component of projects funded by international financial institutions.⁹⁸ Today, CICC has become an enormous commercial success and is managed entirely by Chinese nationals.⁹⁹

To facilitate knowledge creation and dissemination, the World Bank and the Ford Foundation provided capital for the creation of China Center for Economic Research (CCER) in 1994. The Center has evolved into the National School of Development in Peking University and has become a world-class think tank and teaching institution. Notably, CCER's first director, Justin Yifu Lin, went on to become the World Bank's Chief Economist and Senior Vice President from 2008 to 2012, the first person from a developing country to hold such a position.

Two other training institutions – Shanghai Institute of International Economic Management (SIEM) and Central Financial Institute – were set up to train Chinese mid-level officials on project management and evaluation. Funding was given by the United Nations Development Program and course materials were provided by the World Bank's own training arm, the Economic Development Institute (EDI, now the World Bank Institute), which also provides a variety of training programs for

⁹⁸ Lardy, Nicholas R. "China and the international financial system." *China Joins the World: Progress and Prospects* (1999): 206-230.

⁹⁹ Edwin Lim, *Learning and Working with the Giants* in S. Gill & T. Pugatch (editors), *At the Frontlines of Development. Reflections from the World Bank*. The World Bank 2005.

high-level officials in Washington.¹⁰⁰ To date, thousands of Chinese officials have graduated from these programs.¹⁰¹

3.2.2 Impact on Policies

The First and Second Economic Reports

Immediately after the PRC's assumption of membership, the two sides agreed that in order for the World Bank to assess project priorities and conduct activities in China, a comprehensive study of the Chinese economy was urgently needed. China had been closed to the outside world since the early 1950s and even the World Bank had little knowledge of China's economy. At the same time, few political leaders and senior civil servants in China had had international exposure and even fewer understood western economics.¹⁰² China was eager to find out from the World Bank how other countries had succeeded or failed in their reform and development efforts. Since the Bank was perceived as an independent, politically neutral organization, it was able to serve as an intermediary between China and the western world during the initial stages of reform. As one senior World Bank official remarked: "[g]etting to know China's economy, its problems and development

¹⁰⁰ Edwin Lim, *Learning and Working with the Giants* in S. Gill & T. Pugatch (editors), *At the Frontlines of Development. Reflections from the World Bank*. The World Bank 2005.

¹⁰¹ Jacobson, Harold Karan. *China's participation in the IMF, the World Bank, and GATT: toward a global economic order*. University of Michigan Press, 1990.

¹⁰² Interviews with Zhu Xian, World Bank Group's Vice President and Chief Ethics Officer and with David Dollar, World Bank's former Country Director for China and Mongolia.

options was very much a joint exercise in the beginning.”¹⁰³

The first joint study was led by a high-level World Bank mission and was joined by a “counterpart team” appointed by the Chinese government.¹⁰⁴ The Bank also mobilized leading China experts from European, Japanese and American universities. The findings of the 1981 mission was reflected in a 1000-page report titled, “China: Socialist Economic Development”. The report, retrospective in nature, sought to benchmark China’s economic performance with that of the rest of the world and to explore why China had fallen so far behind in terms of technology and living standard.

The findings of the report surprised both the Bank team and the Chinese government. Based on Western economics, the team predicted that China would become a net-oil importer around the mid-1980s if China did not invest in new extraction technologies, discover new reserves and bring them into production.¹⁰⁵ However, the Chinese government had just signed a long-term agreement to export oil to Japan in an expectation that China would have oil surpluses indefinitely. In fact, under the flawed Soviet-style “material balance” projection, China regarded oil as its best hope to generate enough foreign exchange revenues to pay for the imports needed for modernization. As it turned out, China became a net oil importer in 1993.

Remarkably, the report was well received by the Chinese government. Chinese

¹⁰³ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of Contemporary China* 16.51 (2007): 239-258.

¹⁰⁴ Ibid.

¹⁰⁵ IBRD, *China: Socialist Economic Development*. Washington DC: The World Bank, 1983.

officials were impressed with the big picture painted by the report and was comforted by the similarities of problems with other developing countries.¹⁰⁶ It was translated into Chinese and distributed to several thousand senior cadres, and a summary of the report was discussed at the highest levels in government. Two years later, in 1983, the Chinese government agreed to the unrestricted distribution of the report – a breakthrough toward greater openness.¹⁰⁷

As a testament to the report's effectiveness, the Chinese government requested the Bank to conduct another comprehensive study on the Chinese economy that would be forward-looking and prescriptive. The second report, "China: Long-Term Development Issues and Options", made three alternative projections of economic performance and concluded that high growth rates were only possible if the government would undertake major structural reforms and implement the right policies.¹⁰⁸ The second report had such a dramatic impact on China's policies that Premier Zhao Ziyang asked the System Reform Commission to prepare a new Five-Year Plan (1986-1990) incorporating some of the main proposals of the report.¹⁰⁹ "Back then, this was unprecedented...inviting a supposedly "Western" agency to help with China's macroeconomic planning",¹¹⁰ remarked Dwight Perkins,

¹⁰⁶ Jacobson, Harold Karen and Oksenberg, Michel. *China's participation in the IMF, the World Bank, and GATT: toward a global economic order*. University of Michigan Press, 1990

¹⁰⁷ Interview with David Dollar. April 2014.

¹⁰⁸ IBRD. *China: Long-Term Development Issues and Options*, Washington DC: The World Bank, 1985.

¹⁰⁹ Lu, Mai "Evaluation of the World Bank's analytical and advisory services in China since 1990." *World Bank* (2005).

¹¹⁰ Interview with Dwight Perkins. April 2014.

Harold Hitchens Burbank Professor of Political Economy at Harvard and an authority on China's economic reforms. Yet its influence went beyond top planners to the general public. The government agreed to the immediate publication of the report, which then became highly sought after in bookstores across China.

The Moganshan and Bashan Boat Conferences

The Bank also served as a conduit for international knowledge and expertise through its involvement in some of the most significant economic conferences in the reform era that guided China through many turning points of economic reforms. In 1982, China was interested in the experience of Eastern European countries in transitioning from planned to market economies. To facilitate the learning process, the Bank organized a conference on Mount Mogan with East European experts on price reforms – the Moganshan conference of 1982. Chinese attendees included the young economist Wang Qishan, today a Politburo Standing Committee member best known for his staunch reformist stance.

Two major conclusions came out of the conference. Firstly, the price reforms attempted by the Soviet Union and Eastern Europe were considered price adjustments rather than fundamental reforms of price-setting mechanisms and were not seen as true reforms. China thus started to look beyond the Soviet Union

and Eastern Europe for its reform strategy.¹¹¹ Secondly, there was a consensus among international and Chinese participants that China simply did not have the margin for error to consider rapid reforms or shock therapy. Having rejected the “big bang” model, participants agreed that China’s transition must adhere to the principle of gradualism – that elements of reform shall proceed sequentially rather than simultaneously.¹¹²

Building on the conclusions of the Moganshan Conference, the Bank organized another conference in 1985 that would later be hailed as “the enlightenment of China’s macroeconomic management”.¹¹³ At the Bashan Boat Conference, so named because the conference was held on a boat (the Bashan) that floated slowly down the Yangtze River for seven days, top Chinese economic officials learned first hand from seven prominent international economists on the topics of modern market economies and the experience of other developing countries. Beside World Bank officials Adrian Wood and Edwin Lim, the foreign experts included the Nobel Laureate Jim Tobin of Yale, who explained the basic principles of macroeconomic management in a market economy; Sir Alec Cairncross of Oxford, who shared post-war experience of the United Kingdom in dismantling the wartime price

¹¹¹ Edwin Lim, *Learning and Working with the Giants* in S. Gill & T. Pugatch (editors), *At the Frontlines of Development. Reflections from the World Bank*. The World Bank 2005.

¹¹² *Ibid.*

¹¹³ 王德颖,冯华军,“从莫干山到巴山轮——新时期中青年经济学家智库的破冰之旅” (“From Mogan Mountain to Bashan Boat: the ice-breaking journey of young economists in the new era”, Chinese Communist Party Official Website)

<http://theory.people.com.cn/n/2013/1230/c40531-23975211.html>

control and rationing system; Otmar Eminger, former president of the Bundesbank, who talked about the role of an independent central bank in macroeconomic management as well as the German experience in dismantling the wartime control economy; Michel Albert, former head of the French planning commission, who talked about indicative planning in a market economy; and Janos Kornai of Hungary, who talked about behavior of a planned economy that may persist in a reformed scenario.¹¹⁴

These two conferences, together with the Bank's second economic report, laid the foundation for the highly acclaimed policy of "dual-track approach" to economic transition, which did much to avoid the failure of the "big bang approach" adopted by Eastern European countries.¹¹⁵

The Dalian Conference

Like the earlier Mohanshan and Bashan boat conferences, the Dalian conference of June 1993 was a pivotal event and building block in World Bank's policy advisory to China's economic market reforms. The conference marked a turning point in the national debate on two major issues 1) the appropriate degree of economic centralization for China and 2) the management of aggregate demand in China's

¹¹⁴ Edwin Lim, *Learning and Working with the Giants* in S. Gill & T. Pugatch (editors), *At the Frontlines of Development. Reflections from the World Bank*. The World Bank 2005.

¹¹⁵ Gang, Fan. "Incremental changes and dual-track transition: understanding the case of China." *Economic Policy* (1994): 100-122. See also Lau, Lawrence J., Yingyi Qian, and Gerard Roland. "Reform without losers: An interpretation of China's dual-track approach to transition." *Journal of Political Economy* 108.1 (2000): 120-143.

semi-reformed economy.¹¹⁶

China's market reform entered a period of renewed uncertainty in the late 1980s and early 1990s as policy-makers debate over the respective role of central planning and the market system. Externally, the collapse of the Soviet Union sent shockwaves to China, as Chinese officials painstakingly examined its economic causes and implications for the sustainability of China's economic growth, and by extension, the longevity of the Party. Internally, while the policy of decentralization had effectively mobilized local governments for economic growth, by the early 1990s its negative effects had become increasingly obvious: decentralization resulted in the loss of control by the central government over investment planning by lower governments and local financing.¹¹⁷ Excessive local credit expansion had to be checked by Beijing from time to time to avoid inflation spiraling out of control. In the absence of more sophisticated macroeconomic management instruments, Beijing had to rely on direct administrative control that worked quickly but contributed to a stop-go nature of economic growth pattern.¹¹⁸ For example, efforts to stimulate growth after the economic slump of 1988-1990 resulted in a dramatic surge of foreign direct investment in China. Fixed asset investment surged 40% in 1992 and jumped another 50% in 1993. Much of China's major cities had the appearance of a big construction site. GDP growth in 1992 reached an

¹¹⁶ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of Contemporary China* 16.51 (2007): 239-258.

¹¹⁷ *Ibid.*

¹¹⁸ Vajpeyi, Dharendra K., ed. *Modernizing China*. Vol. 62. Brill, 1994.

unprecedented 17.9% in nominal terms, and inflation in major cities reached 11%.

The Chinese leadership was united in the fight against a rampant inflation and the social dislocation it could cause, but could not agree on what to do.¹¹⁹ In this context, the World Bank in March 1993 arranged a group of Chinese economists including advisors to then Vice Premier Zhu Rongji to attend a three-day workshop at the Harvard Institute for International Development in Cambridge Massachusetts. The workshop helped shape the evolution of China's thinking on economic reforms and institutional development, but reached no firm policy conclusion. It was agreed that the discussion should continue at a much higher level in Dalian in June.¹²⁰

The Dalian Conference was co-hosted by China's MoF, the State Commission for Restructuring the Economic System (SCRES) and the World Bank. Participants included many of the same people who attended the Harvard workshop in March and representatives from the IMF, UNDP, the People's Bank of China, the Hainan Institute for Reform and Development and the Korean Development Institute. Weeks before the conference, the World Bank office in Beijing had been informally asked by the Chinese government to invite, as a World Bank consultant, the famous Taiwanese economist Li Kwoh-Ting, father of the island's economic miracle in

¹¹⁹ Fear of inflation is deeply ingrained in China's leaders; they realize that high inflation undermined the authority of the Nationalist government during the civil war (1945-1949) and was an important factor underlying the demonstrations on Tiananmen Square in Beijing (and in other Chinese cities) in 1989.

¹²⁰ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of Contemporary China* 16.51 (2007): 239-258.

earlier decades. Li accepted immediately. The 83-year-old man had not visited the Mainland since 1948. Li participated actively in the three-day conference and afterwards met privately with several top leaders.¹²¹ The arrangement of a former Taiwanese economic and finance minister to advise top CCP leaders would have been politically difficult under normal diplomatic channels. And the World Bank, as a politically neutral international organization, is credited for making such an arrangement happen.¹²²

Vice Premier Zhu invited all participants of the Dalian Conference to meet with him beforehand. Zhu was particularly interested in hearing the views of foreign experts, because, as he explained citing an old Chinese proverb: “foreign monks know more than local monks”. On behalf of foreign participants, Shahid Javed Buki, Director of the Bank’s China Department did not hesitate to explain that the economy had indeed become dangerously overheated and that forceful policy action was urgently needed.¹²³

The same conclusions were reached at the conference. At the end a small group of Chinese participants met with Zhu privately and submitted their recommendations to him.¹²⁴ A few weeks later, in July 1993, top Chinese leaders

¹²¹ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of Contemporary China* 16.51 (2007): 239-258.

¹²² Interview with Dwight Perkins. April 2014.

¹²³ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of Contemporary China* 16.51 (2007): 239-258.

¹²⁴ For conference proceedings and selected works, see Peter Harrold, E.C. Hwa and Lou Jiwei, World Bank Discussion Paper No. 222 (1993) World Bank Publications.

reached consensus on the nature of the inflation problem and agreed on a macroeconomic stabilization program to gradually reduce economic overheating. The program, summarized in 16 points, was ultimately successful in achieving a “soft landing” of the Chinese economy starting in 1994. Relying on a partial re-centralization of fiscal and financial controls, the program marked the first macroeconomic stabilization effort that successfully used indirect policy instruments. Without Zhu’s decisiveness and adroit use of both foreign and domestic advisors, including the Bank, China could have landed in a Latin-American style inflationary spiral, in which case the reform process would have been stalled.

Stabilization was half of the success, however, as a more complete transition called for a gradual elimination of the dual track system of command and market. How to build a modern tax system and codify rules for the collection and sharing of fiscal revenues and expenditure obligations between the central and local governments? Having discontinued access to central bank credit in the interest of fiscal discipline, how to finance future budget deficits? And How, when and at what level to unify the confusing and distortive multiple exchange rate systems? These and other complex issues were the subject of intense debate within the government during the fall of 1993.¹²⁵ The World Bank were involved in the policy dialogue on reform priorities in a major way, as a team of World Bank resident senior economists in Beijing prepared memos that would be submitted for approval to the

¹²⁵ Vajpeyi, Dharendra K., ed. *Modernizing China*. Vol. 62. Brill, 1994.

Third Plenum of the Fourteenth Central Committee of the CCP in November. Their recommendations on additional reforms reportedly gained traction in top leaders, and Zhu Rongji asked the Bank to publish the entire piece in the People's Daily.¹²⁶

In November 1993, the Third Plenum adopted a comprehensive package of 50 interrelated economic reform "Decisions on Certain Issues for Establishing a Socialist Market Economic System", setting the stage for a new and decisive phase of China's market reforms. The "Decisions", ranging from state-owned enterprise reform to exchange rate unification, substantiated the general principle reached at the Fourteenth Party Congress held a year earlier, namely to create a "socialist market economy", and represented a significant effort to put such a theoretical innovation into practice.¹²⁷

For the first time since the start of the market reforms in December 1978 China had defined not only the broad goals but also the *concrete methods* of its economic transformation, and the Dalian Conference and the policy dialogue that ensued were an important building block in the process that led to this point.¹²⁸ The World Bank's contribution to the policy dialogue was notable in pension reform, urban housing reform, energy market reform, environmental protection, labor market and social safety net development, interest rate liberalization and external trade

¹²⁶ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of Contemporary China* 16.51 (2007): 239-258.

¹²⁷ For the full text of the "Decisions", see《中共中央关于建立社会主义市场经济体制若干问题的决定》
<http://www.china.com.cn/chinese/archive/131747.htm>

¹²⁸ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of Contemporary China* 16.51 (2007): 239-258.

liberalization.¹²⁹ These macroeconomic policy reforms of the early and mid-1990s made China's reform process irreversible and integral in scope and the World Bank played a support role in shaping several key decisions and in training Chinese officials responsible for implementing the new policies.

But the question remains: to what extent did the World Bank itself influence the direction, pace and content of China's development strategy? Might Chinese input in the joint studies and conferences have in turn influenced World Bank policy prescription in a way that is more compatible with those reached by the Chinese government? In other words, what is cause and what is effect? These are politically sensitive questions. Neither World Bank officials nor Chinese officials in my interviews wished to project an image of excessive influence by the other side.¹³⁰ Interviewees were reluctant to pick side on the question "which side influences the other more". Rather, interviewees indicated that both sides influence the other and that there is a convergence of views.

Indeed, a senior World Bank official involved in early periods of China's interactions with the World Bank observed that the conclusions of both World Bank reports were consistent with, but went beyond those independently reached by leading Chinese economists at the time.¹³¹ Even to this day, the knowledge input

¹²⁹ Ibid.

¹³⁰ None of the eight interviewees answered this question directly.

¹³¹ Bottelier, Pieter. "China and the World Bank: how a partnership was built." *Journal of*

from the self-styled “world knowledge bank” helps Chinese planners formulate better policies. Interviewees were especially impressed with the in-depth economic analysis and the international expertise provided by the World Bank. “Some problems that China faces are unique, but other problems have many commonalities with those faced by other countries before. The lessons and experiences on how other countries succeeded or failed in the past are extremely important to China today.” Said Liu Zhi, lead transport economist at the World Bank. “Because we have a vast knowledge of the problems various developing countries had in the past, we are able to predict what problems China will face down the road. And this helps China design forward-looking policies”, Liu added.¹³²

This external knowledge is valuable themselves of course, but it is also valuable in a political way: the external advice has drawn upon and reinforced the predilections of the reformers with additional valuable information and arguments to rebut their internal critics. According to deputy director of Agriculture Department at Development Research Center (DRC) of the State Council Liu Shouying, who regularly briefs top officials on the “three rural” issues, “the World Bank helps us say what is otherwise inconvenient to say... Sometimes domestic policy makers are driven more by ideology than by rationality, making rash and uninformed decisions. [The World Bank] provide us a systematic and scientific

Contemporary China 16.51 (2007): 239-258.

¹³² Interview with Liu Zhi. March 2014.

policy analysis framework to help us express our reform recommendations in an international language.”¹³³ In this sense, the World Bank serves as a “laundering” platform for domestic reformers, removing their perceived political or ideological bias and helping to justify reforms from a scientific perspective instead. Therefore, the perceived political neutrality of the World Bank, ironically, has advanced the political agenda of domestic pro-market reformers, as it augments the self-confidence and the standing of reformers against their bureaucratic opponents. Evidently, the World Bank influences China’s policies in a unique and indispensable manner.

To be sure, the World Bank, while influential, is not a source of reforms in China. Virtually all interviewees in the World Bank credited the Chinese government for taking ownership of its reforms, rather than relying on the World Bank to do the work *for* it, as in the case of many less successful member countries. “[Chinese officials] treat the World Bank as a teacher but they do the homework on their own. China takes the World Bank very seriously and carefully listens to the World Bank but decides how to act itself”, said Liu Zhi, a lead economist at the World Bank.¹³⁴ After all, China’s reforms predated membership in the World Bank. Had China not joined the World Bank, Deng Xiaoping and Zhao Ziyang probably would have launched many of the reforms nonetheless, as Deng made clear in the opening quote

¹³³ Interview with Liu Shouying, March 2014.

¹³⁴ Interview with Liu Zhi, March 2014.

of this thesis.

Moreover, it should be acknowledged that the World Bank is by no means the only source of external advice. Regional development banks such as the Asian Development Bank (ADB), and non-profit organizations such as the Ford Foundation, among others, have also been actively showering China with advice. However, interviewees note that the World Bank is the only institution of its kind that has direct access to China's top decision makers. Other external advisors lack either a global geographic scope and membership or the political influence to gain a respectful hearing in the Chinese government. "I am really proud of what we [the World Bank] have done in China. Zhu Rongji had a whole bookshelf devoted to World Bank reports in his office, but he did not have a bookshelf devoted to the Asian Development Bank or the Ford Foundation", said Zhu Xian, who had worked in the MoF's World Bank Department and the ADB before becoming the World Bank's Vice President.

Finally, it should be noted that Bank's influence on China's economic reform has *not* been uniform across time. Several interviewees including David Dollar, Dwight Perkins and Zhu Xian acknowledge that the Bank's influence on economic reforms declined somewhat in the early to mid 2000s from its highs in the 1980s through the mid 1990s, before bouncing back up in recent years. Several reasons account for this variation. First, China's trust towards the World Bank was hit by China's loss of IDA privileges, as discussed in previous section. Second, this period coincided with

the Bank's own adjustment in assistance strategy, with a bigger focus on social issues and less emphasis on economic liberalizations. Thirdly and perhaps the most importantly, China's internal economic reform drive began to lose steam, most notably under President Hu Jintao and Premier Wen Jiabao, who were concerned more about improving social welfare than about structural reforms.¹³⁵ A combination of these three factors meant that China requested less World Bank assistance in designing economic reform strategies from the late 1990s to the mid 2000s. And because the World Bank is demand-responsive – carrying out policy advisory only upon client country's request – the Bank's role was rather limited during this period.

In contrast to Wen Jiabao, his successor Li Keqiang is widely seen as a steadfast reformer and this has led to renewed World Bank involvement in China economic reforms. Despite breakneck economic growth throughout the Hu-Wen period, economic growth had become increasingly “unbalanced, uncoordinated and unsustainable”.¹³⁶ There was an increasing recognition that major economic reforms, which had been stalled for much of the Hu-Wen period, must resume. Otherwise, China could fall into the “middle income trap” – a situation where middle-income countries are stuck at that level.¹³⁷ Faced with a “backlog of

¹³⁵ Interviews with David Dollar, Dwight Perkins and Zhu Xian. Both in April 2014.

¹³⁶ This famous phrase first appeared in Wen Jiabao's address to the National People's Congress in March 2007. For Xinhua report, see: “Premier: China confident in maintaining economic growth”. *Xinhua News* (March 16, 2007) See http://news.xinhuanet.com/english/2007-03/16/content_5856569.htm

¹³⁷ Lardy, Nicholas R., and Arvind Subramanian. *Sustaining China's economic growth after the global*

unfinished reforms”, then First Vice Premier Li Keqiang asked Robert Zoellick, then World Bank President, to “develop a comprehensive and forward-looking report similar to the World Bank’s second economic report of 1985”, according to David Dollar, then World Bank’s Country Director for China.¹³⁸ But unlike the 1985 report, this report, titled “*China 2030: Building a Modern, Harmonious, and Creative High-Income Society*”, shall be jointly developed with the DRC, a first in the relationship’s history.¹³⁹ The 2012 report, which set out a vast range of policy measures from weakening the grip of state-owned enterprises to allowing market forces determine interest rates, had a “huge influence”, according to Dwight Perkins.¹⁴⁰ “It provided the analytical background to the 60 ‘Decisions’ reached at Third Plenum [of the 18th National Congress]” Perkins added, referring to the landmark meeting in November 2013 that re-energized the stalled reform agenda with what Cheng Li sees as “big, bold and broad reforms.”¹⁴¹¹⁴²

The close collaboration between the World Bank and the DRC marks another high point of the partnership. While the counterpart arrangement dates back to the

financial crisis. Peterson Institute, 2011.

¹³⁸ Interview with David Dollar. April 2014.

¹³⁹ The World Bank and the Development Research Center of the State Council, *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*” World Bank publications. 2013.

¹⁴⁰ Interview with Dwight Perkins. April 2014.

¹⁴¹ See Li, Cheng, “Cheng Li: 18th Party Congress’ Third Plenum another Turning Point in China’s Economic Development” November 14, 2013. Brookings Institute. See <http://www.brookings.edu/blogs/brookings-now/posts/2013/11/china-communist-party-third-plenum-turning-point-economic-development>

¹⁴² For a backgrounder of the “Decisions”, see Salidjanova and Koch-Weser, *Third Plenum Economic Reform Proposals: A Scorecard*. US-China Economic and Security Review Commission, November 19, 2013. [http://origin.www.uscc.gov/sites/default/files/Research/Backgrounder_Third%20Plenum%20Economic%20Reform%20Proposals--A%20Scorecard%20\(2\).pdf](http://origin.www.uscc.gov/sites/default/files/Research/Backgrounder_Third%20Plenum%20Economic%20Reform%20Proposals--A%20Scorecard%20(2).pdf)

first economic mission where a Chinese counterpart team was appointed to “attend every meeting, see every statistic, and read every draft” in order to reduce Chinese suspicion towards the Bank,¹⁴³ today’s joint publication model institutionalizes such a successful arrangement. Having the influential government think tank’s name on the report is a “semi-official stamp of approval”, notes *the Economist*, so conservatives cannot easily dismiss the report as part of a Western plot.¹⁴⁴ It follows that World Bank’s influence and prestige will only grow under this model. In fact, following the successful collaboration on *China 2030*, Li Keqiang asked to Bank to undertake another major report with the DRC, this time on urbanization, a major focus of Li’s agenda. The 2014 report, titled “*Urban China: Toward Efficient, Inclusive and Sustainable Urbanization*”, proposes comprehensive reforms on fiscal, land, legal, urban planning, and household registration policies.¹⁴⁵ A summary of key commendations was submitted to China’s top officials prior to the Third Plenum for consideration. Ultimately, many of the Bank-DRC report’s recommendations have been incorporated into the landmark “*National New-Type Urbanization Plan (2014-2020)*”, unveiled at the same time as the World Bank-DRC report.¹⁴⁶

¹⁴³ Edwin Lim, *Learning and Working with the Giants*. Chapter 5 in S. Gill & T Pugatch (editors), *At the Front Lines of Development. Reflections from the World Bank*, The World Bank 2005

¹⁴⁴ “China and the World Bank: 2030 Vision” *The Economist*, February 28, 2012.

¹⁴⁵ The World Bank and the Development Research Center of the State Council, *Urban China: Toward Efficient, Inclusive, and Sustainable Urbanization*. (Forthcoming). For conference edition, see <http://www.worldbank.org/content/dam/Worldbank/document/EAP/China/WEB-Urban-China.pdf>

¹⁴⁶ “China unveils landmark urbanization plan” *Xinhua News*, March 16, 2014. See http://news.xinhuanet.com/english/china/2014-03/16/c_133190495.htm

3.2.3 Impact on Policy Processes

The World Bank's impact on China was as much about the policy processes as about the end policy outcome itself. The key example here is the organization, dissemination and use of data – a crucial part of the policy process. Previously, the State Statistical Bureau, the MoF, and other organizations did not always employ internationally recognized standard on economic measurement. As noted before, China used Soviet standards in measuring economic output, using Net Material Product instead of Gross Domestic Product. However, China was obliged, under membership agreement with the World Bank and IMF, to provide data in *their* terms. Although some Chinese officials were initially disconcerted by the extensive data requests in preparation for the Bank's first economic report, more and more officials came to realize the advantages of these concepts after reading the report.¹⁴⁷ As one put it, "Using the World Bank and IMF yardsticks enabled China to compare itself to other developing countries. We wanted to know what place we occupy in the world economy."¹⁴⁸ Therefore, in one of the most important aspects of a country – national accounting standard – World Bank membership has encouraged China to adopt international standards of measurement.

Such a shift was far more than just statistical; it was substantial. It opened new insights into the operations of China's economy and paved the way for a shift in

¹⁴⁷ Tidrick, Gene. *China: an evaluation of World Bank assistance*. World Bank Publications, 2005.

¹⁴⁸ Jacobson, Harold Karan. *China's participation in the IMF, the World Bank, and GATT: toward a global economic order*. University of Michigan Press, 1990.

China's development strategy. For example, a major difference between Net Material Product and Gross Domestic Product is that the former does not include many services that are included in the latter.¹⁴⁹ As a result of adopting new accounting standards, Chinese officials saw the merit of devoting more emphasis and resources to services – a shift strongly urged in the second World Bank report. In particular, transportation, tourism, and commerce, among others, received greater attention in China's subsequent five-year plans.

China's World Bank membership also increased openness and transparency in China's governance. The above-mentioned World Bank studies necessitated China's provision of a large amount of data that was previously classified. The release of such data to external agents, and the subsequent circulation of Bank reports in public, marked an important step towards greater openness. The availability of data empowered the Chinese people as much as World Bank staff, because economists and researchers within China's universities and research institutions have become better informed as a result. Partly due to the release of data, they have become more involved in the policy process, serving as consultants, using the data for independent work, and occasionally volunteering policy advice that has drawn leaders' praise. It is evident, therefore, that the impact of World Bank membership has been significant in broadening participation in the policy-making process to

¹⁴⁹ For a detailed comparison of the two standards, see IBRD, *China: Socialist Economic Development*. Washington DC: The World Bank, 1983.

include experts outside line ministries and in encouraging a consultative decision-making process.

Not only has World Bank membership helped increase the availability of data, but it has also influenced policymakers' attitudes towards transparency in a significant manner. By virtue of its extensive counterpart office networks in central, provincial and local governments all across China, the World Bank is able to build key constituencies surrounding the officials familiar with the Bank's practices and policies, such as the commitment to transparency and openness. These tens of thousands of officials that manage World Bank projects would then become important allies in gaining acceptance of international norms in China. Pearson, for example, shows that those in the Chinese policy process most extensively interacting with officials from the World Bank are those who are most committed to transparency in policy making.¹⁵⁰

Another example of what the Bank calls a "transformative engagement" is its role in overhauling China's project appraisal and management techniques.¹⁵¹ The Bank requires that major bank-funded projects be subject to international competitive bidding. But China initially resisted such a request, because most costs came from labor rather than equipment. Besides, China felt that contracts for these

¹⁵⁰ Pearson, Margaret M. "China's integration into the international trade and investment regime." *China Joins the World: Progress and Prospects* (1999): 161-205.

¹⁵¹ Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, "World Bank Group Strategy" September 18, 2013.

domestic projects should be awarded to domestic companies. The Bank persuaded China to comply with standard international procurement process by explaining that foreign firms were more interested in providing the engineering and other high value-added services in these projects rather than replacing Chinese labor. Meanwhile, the Bank sought to demonstrate to China that this practice is widely used across the world. As it turned out, the Chinese companies participating in the joint ventures learned and internalized a tremendous amount of technical, managerial and engineering know-how.¹⁵²

China's compliance with World Bank's procurement policy resulted in a much more rigorous planning and evaluation process and led to two important consequences for China's domestic economy. Firstly, Chinese officials became so impressed with the benefits of competitive bidding that China began to adopt such a practice in purely domestic-funded projects too. For example, railway construction companies that previously had a franchise on all Ministry of Railway project began to face competition from companies that once had been sole providers of construction services to other ministries. And they, in turn, began to bid for non-rail projects in other ministries. Similarly, regional companies began to bid for projects in other regions. Ultimately, a seemingly small change in procurement process changed the mentality of those officials managing public works and thus

¹⁵² Lardy, Nicholas R. "China and the international financial system." *China Joins the World: Progress and Prospects* (1999): 206-230.

significantly contributed to improvements in productivity in the construction sector.¹⁵³

The second consequence was that Chinese construction companies started to bid successfully on large-scale construction projects *outside* China. These companies have been particularly successful in bidding for projects in the Middle East and in World Bank-financed projects in Africa. Their increasing activism is reflected in China's increasing share of IBRD and IDA payments for procurement for equipment, civil works, consultants, and the likes in other countries (See Figure 5). These payments also contributed to a modest strengthening of China's service account in its balance of payments. Evidently, the World Bank has persuaded China to comply with international norms and standards of behavior, which had the unintended consequence of yielding significant benefits for Chinese companies that invest overseas.

Figure 5: Annual Contract Amount Awarded by IBRD and IDA to Chinese Companies in World Bank Projects in Africa, 2000-2013, (US\$ Millions)

Year	Contract Value
2000	33
2001	90
2002	62
2003	52
2004	292
2005	220
2006	395
2007	401

¹⁵³ Lardy, Nicholas R. "China and the international financial system." *China Joins the World: Progress and Prospects* (1999): 206-230.

2008	363
2009	385
2010	329
2011	1,127
2012	1,136
2013	716
Cumulative	5,601

Source: World Bank Annual Report, various years

3.3 Connection with Theories

The evidence presented in this chapter is a powerful example of what social psychologists call “informational social influence”, the tendency for people to look for others as sources of information to determine the most appropriate course of action in ambiguous situations. The resulting conformity of values and behaviors is most evident if others were perceived as particularly knowledgeable.¹⁵⁴ In this particular case, a China rocked by Mao’s death in 1976 and Deng’s decision to open China up to the world in 1979 faced a great deal of political uncertainty and ideological confusion in the 1980s. In an attempt to “cross the river by feeling the stones”, Chinese policy makers actively sought advice from the World Bank, which is perceived as an expert in development.

While the concept of informational social influence in its original sense is used

¹⁵⁴ Aronson, E., Wilson, T.D., & Akert, R.M. (2012) *Social Psychology* (8th edition). Pearson: Boston, MA

to analyze individual behavior in a group setting, this insight remains valid in the international relations context. Policies are inevitably made by a small group of individuals even in democratic countries, and policies in China even more so. As a trusted advisor, the World Bank has direct access to China's top policy makers and is well positioned to influence their opinions, and by extension, their policies. Evidence suggests that extensive interactions between China's policy makers and World Bank advisors have shortened China's learning curve and hastened China's internalization of the institution's norms and best practices.

Moreover, an analysis of top Chinese leaders' career paths suggests that their involvement in World Bank activities in their early careers tend to bring about repeated cooperation in the future, even after their perceived need for foreign advice decline. It is no coincidence that many top Chinese officials who have requested World Bank advice today were themselves involved in World Bank projects when they were junior officials in earlier decades. For example, the Bank's first economic mission to China in 1981 attracted the interest of a Chinese economist who had just been rehabilitated from purge. He volunteered to be the counterpart on industry to the Bank team and wrote a short piece on Chinese industry for the mission. His name was Zhu Rongji, later China's Vice Premier from 1993 to 1998 and Premier from 1998 to 2003. During his premiership, he actively engaged the World Bank, as illustrated by the Dalian Conference. Moreover, several of today's preeminent reformers and advisors – including Politburo Standing

Committee member Wang Qishan, Central Bank Governor Zhou Xiaochuan, Finance Minister Lou Jiwei, and economist Wu Jinglian – were among the participants of the Moganshan and Bashan Boat conferences in the 1980s.¹⁵⁵

But again, it might be argued that reform-minded officials were more likely to be involved in World Bank projects in the first place; consequently, their progressive policy orientation might not have been due to interactions with World Bank officials *per se*. However, interviewees from both Chinese government and the World Bank indicate that local officials with experiences dealing with the World Bank often receive quicker promotion.¹⁵⁶ “Local cadres who have been trained by the World Bank and who have handled World Bank projects tend to have a more international perspective, and their superiors value this experience.” noted Liu Zhi, a lead transport economist at the World Bank. This suggests a positive causality between World Bank activities and the political standings of Chinese officials involved. In other words, one way in which the World Bank facilitates China’s internalization of the institution’s norms of behavior is to provide valuable information to strengthen the political position of Chinese reformers against their conservative opponents.

¹⁵⁵ Interview with David Dollar. April 2014.

¹⁵⁶ Interviews with Liu Zhi and Liu Shouying. Both in March 2013.

Conclusions and Implications

China's transition from a planned to a market economy entailed a steep learning curve for Chinese policy makers. This thesis has demonstrated that the World Bank played a notable and indispensable role in this process: extensive interactions between China's policy makers and World Bank advisors since 1980 have shortened China's learning curve and hastened China's internalization of the institution's norms and best practices. Specifically, the World Bank facilitates China's domestic reform and development on two levels: on a macro-economic policy level, the Bank reinforces the existing policy predilections and political positions of reformers against their conservative opponents by providing crucial international experiences and expertise that justify pro-market reforms and increase reform success. On a technical level, the World Bank influences domestic political processes through the incorporation and embodiment of World Bank standards and norms into domestic laws and regulations. World Bank-facilitated institution building was used to support and reinforce both outcomes. While lending was an important leverage to achieve these two objectives in the 1980s, its importance has decreased over time as China's own financial resources increase. Lending today is mainly used to maintain trusting relationships with Chinese leaders and to support knowledge transfer activities.

However, it should be acknowledged that the World Bank does not and cannot

produce policy outcomes independently, but only jointly with the Chinese counterpart. Crucially, the extent of World Bank's effectiveness depends heavily on the internal reform drive, or domestic salience, of the member country concerned. The variation of the World Bank's influence in China's reform agenda over the past 35 years suggests that the World Bank can only be as effective as the member country allows it to be.

These insights have far-reaching implications. Firstly, it sheds light on how developing countries should best engage the World Bank to maximize its effectiveness. China's experience shows that member countries must take ownership of its own reforms. Instead of asking the "what" question, member countries should seek World Bank advice on the "how" question. The World Bank is most effective when member countries have specific development goals in mind but are unsure of how to achieve them. Consequently, member countries that are less successful are advised to strengthen their domestic leadership and be in the driver's seat of its development. The World Bank cannot substitute domestic leadership.

Secondly, the thesis provides further explanatory power to socialization model of state behavior. It reaches similar conclusions as Cortel and Davis's analysis of the U.S. case, in that IOs produce domestic effects through domestic political actors and the incorporation of norms in domestic laws and practices. The conclusions are also consistent with those reached by Iain Johnson, suggesting that socialization forces go deeper than international policies and can noticeably affect domestic policies as

well. Granted, World Bank advice ultimately has the effects of enhancing Chinese power, but the specific instruments used are knowledge, information and normative pressure – forces that are non-coercive and non-material.

Finally, the conclusions also shed light on the capacity of neo-liberal institutions in absorbing non-liberal states, or in the constructivist term, novel agents. To the extent that the World Bank exhibited a remarkable degree of responsiveness and flexibility toward the membership request of a communist China, and to the extent that its subsequent interactions with China continue to demonstrate trust and political neutrality, the World Bank is well positioned to serve its founding objectives. This liberal character in turn, encourages China to play a bigger and more responsible role in the World Bank. The caveat is that the conclusions from this study cannot be generalized into other international organizations and regimes, nor can we draw broad conclusions on whether China is a *status quo* power, as it remains a case study of China-IO interaction.

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