Global China pulse

volume 1 | Issue 2 | 2022

This text is taken from *Global China Pulse*: Volume 1, Issue 2, 2022. The journal is produced by *The People's Map of Global China*.

ESSAYS

Washington, D.C.

Inter-American Development Bank headquarters at Washington, D.C. 1300 New York Ave NW building. Source: Mario Roberto Durán Ortiz (CC), Wikimedia Commons

Caught in the Crossfire: The Inter-American Development Bank and US–China Rivalry

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China has engaged with Latin America at both bilateral and multilateral levels. This essay focuses on China's entrance into the Inter-American Development Bank (IDB) and its impact on regional multilateral governance. It shows that the United States sought to hinder China's entry, against the will of Latin American member countries. The result of the long process was a weakening of regional multilateral norms.

Throughout history, the foundation and prosperity of regional institutions in Latin America have been the result of a combination of local initiatives, political dynamics, and great-power influence. Born of a compromise between the United States' desire for hegemony in Latin America and Latin American elites' ideas about a prosperous and autonomous region, the Inter-American Development Bank (IDB) is no exception. Intellectuals and political leaders from Latin America originally proposed the establishment of a regional development bank in the early twentieth century, but US support was not secured until 1959, when it sought to strengthen Latin American cooperation to prevent further communist progress after the Cuban Revolution (Tussie 1995, Bull and Bøås 2003).

Given this background, it is rather predictable that the IDB would be affected by the rise of China and US–China rivalry. This essay discusses how this has been panning out through an analysis of China's entry into the IDB and US reactions to it. It argues that the consequence of the US–China rivalry has been a weakening of the IDB's regional character and multilateral norms. To understand how and why this happened, it is necessary to place China's entry in historical context. Drawing from documents, press reports, and interviews (some online and some in-person) with IDB staff and members of the Board of Directors between 2021 and 2022, the essay offers a chronological perspective on the ascent of China into the IDB and US reactions to it, highlighting the long-term implications of this for regionalism in Latin America.

The IDB between Regional Aspirations and US Hegemony (1959–1990s)

From the outset, the IDB was the result of compromise. Since the beginning, the United States has controlled about one-third of the votes on the bank, and the headquarters were placed in Washington, DC. However, the bank's institutional ideology was largely the offspring of the Latin American state-led vision of development, as pioneered by Raul Prebisch and the structuralist school of the Economic Commission for Latin America—a group that sought economic and social modernisation through state involvement and temporary decoupling from global markets. The role of the IDB was to channel finance from global markets to Latin American states (Tussie 1995). Moreover, Latin American borrowing member countries would hold just over 50 per cent of the equity or capital shares in the bank, maintaining a voting majority, and the system for electing the president guaranteed that the winning candidate would be from one of the 26 Latin American and Caribbean countries. The IDB also had a clear identity as a 'Latin American bank', and was characterised by 'political savviness' due to its proximity to regional governments (Birdsall 2014). In addition, the bank had built-in solidarity with a 'soft window' providing concessional (low-rent) loans and grants to poorer economies.

The 1980s brought major changes to the IDB. First, the debt crisis that devastated Latin America from 1982 threatened to break the IDB economically. Second, the US agenda shifted towards a focus on imposing market-oriented policies, which threatened to render the IDB irrelevant, making it lose both ideological momentum and financial muscle (Bull 2005). As it moved to survive the devastating impact of the debt crisis by adjusting its profile towards US interests, the IDB was increasingly criticised for failing its original mandate and being too subservient to the United States.

In the 1990s, the United States sought to make Latin America a cornerstone of the strengthening of an open global economy, framed by ideas of prosperity and free trade. In Latin America, the US vision was expressed first in the North American Free Trade Agreement (NAFTA) linking Mexico with Canada and the United States, and later in the initiative to create a Free Trade Area of the Americas (FTAA) stretching from Alaska to Tierra del Fuego. The United States saw a role for the IDB in this regional vision and agreed to strengthen the bank's financial position. One of the means through which it did so was by allowing non-regional countries as members: 16 European countries, plus Japan, Israel, South Korea, and the People's Republic of China. This partly rested on the fact that the United States saw few threats against its vision and interests at the time, in Latin America or elsewhere. As Nancy Birdsall (2014: 14) explains:

> [T]he United States was more willing in the 1990s to dilute its capital share in a region where almost all the borrowers had become democracies, and where there was a broad consensus on the relative roles of the market and the state, with the private sector as the engine of growth and the state as enabler of growth by supporting a level playing field and the rule of law.

While lending practices became more closely aligned with the Washington Consensus, the shift of the bank's presidency in 1988 from Mexico's Antonio Ortíz-Mena to Uruguayan Enrique Iglesias reflected once again the compromise between Latin American influence and US ideological preferences (Vivares 2013). Iglesias had led the negotiations for the Uruguay Round that ended with the establishment of the World Trade Organization (WTO) and was seen as a proponent of both liberal globalisation and Latin American structuralism favouring state-led modernisation.

The openness to non-regional countries also encouraged China to express its interest in becoming a member. In 1993, Zhu Rongji, then Vice-Premier of the State Council and later Governor of the People's Bank of China (PBC), sent a letter to the IDB on behalf of the Chinese Government formally applying for membership. However, its application was rejected by the United States, which argued that there were no 'free shares' for China to buy (Zhou 2012).

The Commodity Boom, the Global Financial Crisis, and Chinese Entry into the IDB (2004–2009)

In the first decade of the 2000s, three factors again affected the relevance of the IDB: the commodity boom, the Global Financial Crisis (GFC), and China's rise as a major lender in Latin America. Due to the commodity boom (2003–07) and the ensuing inflow of capital to Latin America, the highest-ranked borrowers in the region—for example, Chile, Uruguay, Brazil, and Mexico—could achieve loan conditions similar to or better than those offered by the IDB on regular financial markets, which drove a wedge between these countries and the poorer economies (Fleiss 2021: 52). The first real opportunity for China to become a bank member occurred in 2004, when then president of the IDB Iglesias told the Chinese Ambassador to the United States, Yang Jiechi, that the 550 shares (with a total value of 6 million USD) owned by Bosnia and Macedonia were ready to be transferred to new members. Although some of the shares were to be sold to South Korea, Iglesias believed China could buy the other half (Zhou

2016). At that point, no Chinese development bank had yet provided loans to Latin America (Gallagher and Irwin 2016), and most regional member countries held a positive attitude towards China's participation.

The resistance again came from Washington. The United States argued that the entry conditions for countries outside the Americas should be that they had 'graduated' from regional development banks—that is, they no longer received loans from global or regional development banks. South Korea had 'graduated' several years before its application to the IDB, while China was still receiving loans from the Asian Development Bank and the World Bank (Zhou 2016). In the Chinese media, however, this move was widely seen as part of a geopolitical struggle by the United States to keep China out of its 'backyard' (Jiang 2005) .

A few months later, the United States changed its position. In October 2004, the Sino-US Economic Joint Committee of the US Congress issued a communiqué stating that 'the United States supports China's efforts to join the IDB' (Zhou 2016). This started a long process of negotiation mostly between the US Treasury, the Chinese Ministry of Foreign Affairs, and the IDB's newly elected president, Colombia's Luis Alberto Moreno, over China's 'entry fee'.

President Moreno's job of negotiating the Chinese entry into the IDB was perhaps facilitated by the 2008 GFC, during which the IDB lost 1 billion USD and needed a capital increase to play the role of a countercyclical lender for Latin America. The ninth general capital increase (GCI-9) was accepted at the meeting of the IDB Board of Governors in July 2010. It was the largest in the IDB's history, providing 70 billion USD in additional capital subscriptions to ordinary capital and 479 million USD in new contributions to the Fund for Special Operations (FSO), the IDB's soft-loan window for its poorest member countries (IDB Undated).

The GFC also marked the turning-point in the presence of Chinese development banks in the region. While Chinese lending was absent before 2005 and reached a modest 300 million USD in 2005, in 2010, it skyrocketed to more than 35 billion USD—three times as much as IDB lending in the same year—driven by multi-billion-dollar loans issued by the China Development Bank (CDB) and the Export–Import Bank of China (China Eximbank) mainly to four countries: Venezuela, Argentina, Brazil, and Ecuador.

Finally, in June 2008, an agreement was reached that China would pay 350 million USD for its miniscule 0.004 per cent of IDB votes. Of this amount, 125 million USD went to the FSO, and another 75 million USD created a multi-donor fund to strengthen the institutional capacity of Latin American and Caribbean countries. China also joined the IDB-affiliated Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF)—another entity administered by the IDB—and contributed 75 million USD to each of them (IDB 2009). On 7 January 2009, China's membership of the IDB was celebrated in a ceremony with the Chinese Ambassador to the United States Zhou Wenzhong (IDB 2009).

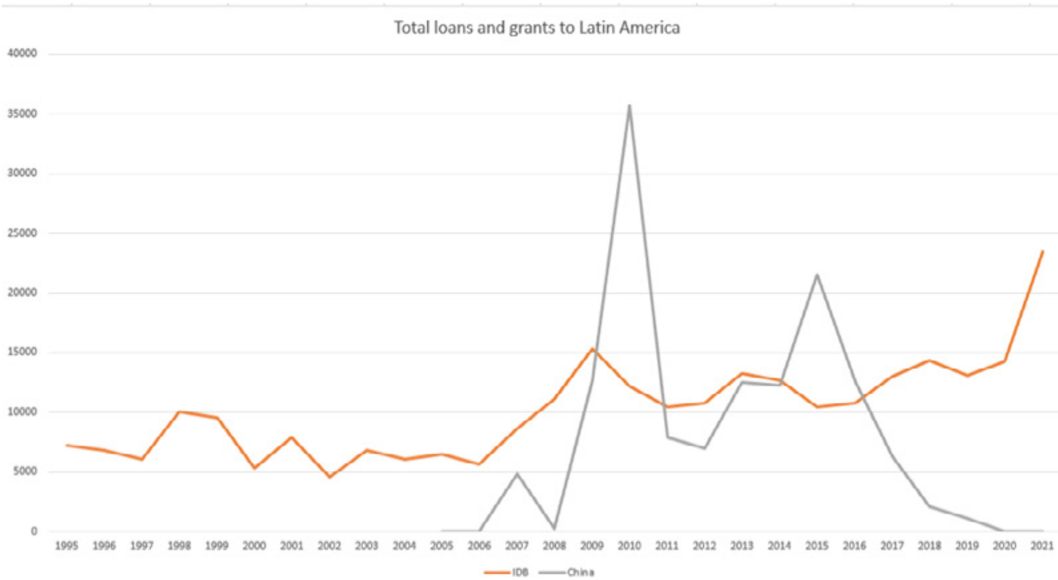

Figure 1: IDB and Chinese bilateral lending to Latin America. Sources: For IDB, various annual reports; for Chinese lending, Gallagher and Myers (2022).

China as a Discrete IDB Member (2009–2019)

Inside the IDB, China had little influence due to its negligible voting share of 0.004 per cent, which was not enough even to give it a presence at board meetings.[1] To this day, only South Korea has a similarly low share. Croatia and Slovenia hold the next lowest shares, but both are about 10 times that of China (0.031 per cent and 0.050 per cent, respectively). In comparison, the United States has 30.006 per cent of the votes, the Latin American countries jointly control 50.055 per cent, with Brazil and Argentina controlling more than 11 per cent each.

Rather than direct participation in the bank's managing bodies, China's influence came through making available large sums of money. After the GFC, there was a desire on the part of the regional members to access more of the abundant Chinese capital. After the 2010 capital increase, the IDB had the lowest share of 'paid-in capital' of any multilateral development bank and its private sector funding arm was especially underfinanced.[2] After a series of meetings between Moreno and Zhou Xiaochuan, the Governor of China's central bank, the PBC, in 2013, China established the Co-Financing Fund for Latin America and the

Caribbean of 2 billion USD, 1.5 billion USD of which was channelled to private sector lending, with 500 million USD to the public sector, which would also be subject to IDB standards.

Private sector lending in the IDB was previously split between the private sector lending institution the IIC and a private sector window in the bank proper. In 2015, these were merged into the new subsidiary IDB Invest. When IDB Invest was established, the United States decided to reduce its participation, as did Spain and Japan (Runde 2021). The result was that there were more shares left for China and it could translate its support into a voting share of 5.4 per cent. Also, the 1.5 billion USD private sector share of the Chinese trust fund was transferred to IDB Invest (IDB 2013). Although trust fund money is not leveraged—that is, it does not give one more votes—the trust fund was worth twice as much as the paid-in capital of IDB Invest at the time, giving China potential informal influence. In 2012, China Eximbank had created an 'equity investment platform' with 153 million USD of paid-in capital and the potential of mobilising a total of 1 billion USD (IDB 2012).

As a result, China became active in the governance of IDB Invest, although, according to some of my interviewees, the views expressed by the Chinese representatives did not differ significantly from those of other significant shareholders (Interview with board member, August 2021). Moreover, there is little to suggest major Chinese political influence over decision-making in IDB Invest. As proof, Humphrey and Chen (2021) point to the 2021 approvals of Chinese co-financing funds for loans to Guatemala and Honduras, both of which still recognise Taiwan. While Chinese companies gained several contracts for IDB-funded projects, there is no evidence that they were disproportionately favoured (Humphrey and Chen 2021; Interviews with staff, June 2021).

In the IDB's main governing bodies, China's tiny voting share did not give its officials access to board meetings. To make up for that, the IDB added an extra advisor to board constituencies (voting groups) to ensure China had a permanent advisory presence in the bank's headquarters (Humphrey and Chen 2021). Over time, the number of Chinese nationals among the staff increased to about twenty. Nevertheless, there is little to suggest that China has had major influence over bank operations or IDB Invest decision-making.

The IDB as a Battlefield for US–China Rivalry (2019–2022)

With the elections for Nicolás Maduro's second term as President of Venezuela widely seen as fraudulent by renowned political scientists and the country's opposition, on 23 January 2019, the President of the National Assembly in Venezuela, Juan Guaidó, declared himself the rightful president of the country, giving as a justification the constitutional mandate that called for the President of the National Assembly to take on that role in the absence of a president. The United States immediately recognised Guaidó as Venezuela's rightful president and, over the following months, 56 other countries followed suit. Among the first were neighbouring Colombia, which was hosting a large diaspora of Venezuelan opposition figures as well as an increasing number of refugees. On 24 January 2019, Colombian-born president of the IDB Moreno tweeted: 'The IDB confirmed its willingness to work with the interim-president Juan Guaidó to ensure its continued support for the development of the Venezuelan people' (Moreno 2019). The Chinese city of Chengdu had already been chosen to host of the IDB's annual meeting in March of that year. Moreno had until then had a good relationship with the Chinese and, indeed, had spent years seeking a closer relationship with Beijing. However, the Chinese Government—which had a close relationship with the Maduro administration and had lent it more than 60 billion USD—did not approve of Moreno's tweet supporting Guaidó (Rosales 2016).

Guaidó named a complete 'interim government' and appointed Ricardo Hausmann, a former chief economist of the IDB (1994–2000), as his representative to the bank. The IDB Board—then dominated by countries recognising Guaidó—accepted the appointment of Hausmann, who had been a vocal critique of Chinese projects in Venezuela for their lack of transparency or solid economic foundations. When the Chinese side refused to invite Hausmann as a representative of Venezuela to the meeting in Chengdu, the US Trump administration threatened to withdraw from the meeting and urge regional partners to do the same, leaving the meeting without a quorum. Moreno decided to cancel the annual meeting only a few weeks before the event, when flights had already been booked and identification paperwork issued (Bermúdez 2019). China reacted sharply, with government spokesperson Geng Shuang saying the IDB meeting 'should focus on financial cooperation rather than … discussing sensitive political issues' (AFP 2019). He further emphasised that China had made lengthy preparations as the host country and the change of venue was the result of some parties 'manipulating the Venezuelan issue'.

This was a major blow to the relationship between China and the IDB. China tried to keep the conflict over Venezuela at bay but nevertheless boycotted the much smaller and more low-key meeting of the IDB and IDB Invest held in Guayaquil, Ecuador, in July the same year (Ray 2019). Yet, all of this was just a mild wind compared with the storm that was to follow when the time came to elect the new IDB President after Moreno's retirement in 2020 after 15 years of service.

In February 2020, the President of Argentina, Alberto Fernández, backed the IDB's former secretary for strategic issues Gustavo Beliz as a candidate to succeed Moreno. He immediately won the support of Mexico, but various governments later put forward their own candidates, among whom were former Costa Rican president and IDB consultant Laura Chinchilla. Observing the split between the Latin American countries, on 16 January 2020, the US Treasury Department proposed Mauricio Claver-Carone for IDB President, breaking for the first time the unwritten rule of US support for Latin American candidates for the top position (US-Gov 2020).

Claver-Carone was born in Florida to Cuban exiles and developed a career as a lobbyist pushing for hardline policies on Cuba in Washington, DC. He had originally supported Marco Rubio rather than Donald Trump as Republican presidential candidate and was thus not appointed to a high-level position in the Trump administration. However, after Trump made regime change in Venezuela a foreign policy priority, Claver-Carone was appointed senior director of the National Security Council on the Western Hemisphere. In this position, he was a key strategist behind the 'maximum pressure' strategy towards Venezuela, which included the imposition of tough sanctions and denunciation of the role of Cuba in Venezuela (Waldron 2020).

Claver-Carone's candidacy quickly gathered support from Brazil, Colombia, and Ecuador—all of which had right-wing governments at the time. Paraguay, Uruguay, and five Central American countries later added their support. Fearing deep politicisation of the IDB, as well as US dominance and potential problems with a possible change in the US Government, a civil society campaign began to try to postpone the elections for IDB President until after the US presidential elections to avoid the appointment of Claver-Carone (WOLA 2020). Although the candidates for election for bank president require only 50 per cent of the votes to win, 75 per cent of the votes are required to open an election. Thanks to this mechanism, Argentina, Mexico, and the bank's European member countries should have been able to block the opening of the vote (Cibeira 2020).

The campaign, however, failed. Argentina and Costa Rica eventually withdrew their candidates, and Claver-Carone was elected in September 2020 with the backing of 30 of 48 bank governors (the remainder cast blank votes) amid criticism of the United States for continuing to operate according to the Monroe Doctrine and treating Latin America as its own backyard (Welsh 2020).

After taking the president's position in October 2020, Claver-Carone immediately began to make changes. His most high-profile endeavours were to work for new capital replenishment and to introduce the idea of 'nearshoring' in the IDB's new strategy paper, *Vision 2025* (IDB 2021). Both efforts were designed to keep China at bay. The idea of nearshoring originated in Trump's 'Back to the Americas' initiative and sought to entice US companies to move back to Latin America or the United States from China, which would contribute to development in the United States and Latin America and reduce US companies' vulnerability to Chinese influence (Garibello 2022). The purpose was clear: to incentivise US companies to invest in Latin America instead of China and prevent Chinese companies gaining a foothold in Latin America. A leading voice of the nearshoring movement was Trump's trade advisor and China hawk Peter Navarro, who pointed out that this strategy would counteract China's domination of all aspects of the supply chain. The purpose was clearly spelled out in the *United States Innovation and Competition Act of 2021*, which linked both the capital increase to the IDB and nearshoring with accusations about how 'the Government of the People's Republic of

China's predatory economic practices and sovereign lending practices in Latin America and the Caribbean negatively influence United States national interests in the Western Hemisphere' (US Congress 2021: 986, lines 21–25).

Claver-Carone brought the idea of nearshoring into the debate in the IDB ahead of the 2021 meeting of the Board of Governors as a main thrust of his proposed *Vision 2025*. This was not well received by the Chinese, who understood this as a clear attempt to keep them out of the region (Interviews with non-regional board representatives, April 2021).

Claver-Carone's attempt to ensure a capital replenishment commitment failed at the meeting of the Board of Governors in 2021. After Joe Biden came to office, Claver-Carone's relationship with the IDB's largest single stakeholder soured and he spent much of his time lobbying in the US Congress. In February 2021, a bipartisan group of lawmakers, of whom two were well-known hardliners on issues related to Cuba and Venezuela—Florida Republican Marco Rubio and New York Democrat Bob Menendez—introduced the Inter-American Development Bank General Capital Increase Act to authorise the United States to vote for a 80 billion USD capital replenishment in the IDB (US-Gov 2021). This was incorporated into the *United States Innovation and Competition Act of 2021*, which was adopted by the US Senate on 8 June 2021. Authorisation for the IDB capital replenishment is given under Section 3250 of this Act, 'Addressing China's Sovereign Lending Practices in Latin America and the Caribbean' (US-Gov 2021).

Claver-Carone's struggle for a capital increase made him popular particularly with the smaller countries in the region—a position that was fortified by his appointment of vice-presidents from these countries, including Honduras, while he ignored the larger countries such as Argentina. He also introduced a new communication style, willingly giving interviews to the media in which he consistently emphasised his favourite topics: nearshoring and the capital increase to make the IDB the favoured institution for bringing Latin America out of the Covid-19 crisis.

However, the conflict in the election that had brought him to the presidency and the strong message against China in his main proposals created an unprecedentedly harsh tone at the usually cordial and consensus-oriented meeting of the Board of Governors. One country representative said it 'was the noisiest meeting I have ever attended in the IDB', noting that many of Claver-Carone's opponents had been unusually vocal (Interview with member of the Board of Governors, May 2021).

In March 2022, an anonymous email was sent to IDB directors alleging that Claver-Carone had an inappropriate relationship with his chief of staff, Jessica Bedoya, and had misused funds while spending time with her. An investigation by the law firm Davis Polk confirmed the relationship and several other violations of the IDB's statutes and ethical codes (Goodman 2022). On 26 September, the Board of Governors voted to dismiss him (IDB 2022). This prompted relief among employees, who argued that

Claver-Carone's governing style and policies had created a culture of fear among staff and board members (Jiménez 2022). On 20 November, Ilan Goldfajn was elected IDB president, the first Brazilian to hold this post. It created some controversy in Brazil, as he had been suggested by outgoing president Jair Bolsonaro and the left-wing in the coalition of president elect Luiz Inácio Lula da Silva, to take office on 1 January 2023, unsuccessfully sought to postpone the election. However, Goldfain is a highly respected economist who enjoys wide support in the region and in the Biden administration, and his election promises the return the IDB to normalcy.

Lost Regionalism?

There is little doubt that the United States' intention to use the IDB as an instrument in its rivalry with China has had negative repercussions for the bank's ability to strengthen regional consensus and foster regional multilateralism. However, it is also the case that the existing fragmentation among Latin American countries facilitated the United States' divisive strategies.

It is less certain how China will use its role in the IDB in the future. While not a prominent institution, the IDB is an important lender for many countries in the region, and it provides an important platform for economic multilateralism in the area. The dismissal of Claver-Carone will probably lower tensions and allow the regional member countries to unite around a joint candidate and policies. The consequences of the choice of a candidate who obviously lacked the qualifications and political experience needed for the IDB presidency have been so negative that it is unlikely that anyone will try something similar again. However, although it is likely that we will see an increased respect for regional multilateral norms in the years to come, bipartisan support for policies aimed at limiting China's influence in Latin America remains strong in the United States, making it likely that the IDB will continue to be a site of contestation and superpower rivalry. ●

This article has been produced as part of the project 'MultiChina: Chinese Multilateralism and its Impact on Environmental and Democratic Governance in Africa and Latin America', funded by the Research Council of Norway. The author would like to thank Wei Guo for her outstanding research assistance.

1 The IDB is governed by a Board of Governors, comprising governmental representatives—often finance ministers, central bank presidents, or high-level diplomats—who meet once a year. The daily governance issues are handled by the Board of Executive Directors, comprising 14 executive directors representing 48 member countries and including 14 alternatives, who have full power to act when their principals are absent. Those member countries with small shares are joined in 'voting groups' that have a director that rotates between the members. China, however, did not gain even the right to have a rotating director

2 The IDB, like most multilateral development banks, has two 'kinds' of capital: paid-in and 'callable'. Callable capital is essentially collateral for loans taken by the bank on regular financial markets. 'Paid-in' capital is deposited by the non-borrowing countries and can be lent to borrowing members directly.