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# Could Trump and Xi break the deadlock in the World Bank?

*Jakob Vestergaard and Robert H. Wade argue that Trump's transactional approach to deals might paradoxically help break the long-standing deadlock in World Bank governance by pushing China to increase its financial contributions in exchange for greater shareholding and influence.*

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Just weeks into Trump's second presidency it is clear that his government is determined to translate campaign rhetoric against allies and multilateralism into actions. He has announced US withdrawal from the Paris climate agreement, the World Health Organization (WHO), the UN Human Rights Council (UNHRC), prohibited future funding for the UN Relief and Works Agency for the Near East (UNRWA), made territorial threats to Panama, Canada and Greenland, talked up economic warfare against China, Mexico, Canada and the EU, talked down World Trade Organization (WTO) obligations, and closed the government's foreign aid agency (USAID). As though that is not enough, he has also claimed that the US government will take ownership of Gaza, clear out the Palestinians (Egypt and Jordan must take them), and rebuild Gaza as a high-class Mediterranean beach resort. The overarching theme is that the US rejects responsibility for leading multilateral coalitions as it continues to claim greatness above all other nations.

It is crucial that other states mobilize to protect the global multilateral system. They can seize opportunities to "play" the transactional focus of the Trump government – and its impulse for disruptive dealmaking — to the advantage of multilateralism. And even without pressure from other states the US may seize opportunities to make deals which support multilateralism, though that is not Trump's intention. One such opportunity is for "constructive disruption" in breaking the governance deadlock in the World Bank.

For almost 20 years now, finance ministers and central bank governors from all over the world have deliberated and negotiated to reform the shareholding of the World Bank to better reflect the changing relative economic weight of its member countries.

Some countries of the global South have substantially raised their share of world GDP in the past two decades but have experienced very little gain in Bank shareholding. The US remains the dominant state, and many European countries remain very over-represented. Leaders of the global South resent their continued marginalization, as though the "pluralization" of the world economy has not taken place.

Shareholding determines voting power but is almost impossible to reform. Member countries enjoy so-called pre-emptive rights, entitling each of them to refuse lower relative shareholding in the Bank if they so please. It is a gordian knot, blocking more than marginal changes.

In an important way, shareholding in the Bank is a free lunch, a right that can be exercised with only a limited burden of responsibility attached. For example, large shareholders are not obliged to contribute financially to the Bank's lending arm for the poorest countries, the International Development Association (IDA), which therefore to large extent is financed by *voluntary* contributions from the US, UK and other European, high-income countries.

If World Bank governance reform is to become unstuck, pre-emptive rights must be removed from the Articles of Agreement and replaced with a principle of responsible shareholding, requiring all large shareholders to make financial contributions to IDA in proportion to their shareholding.

Coinciding with the arrival of the second Trump government, the World Bank is embarking on yet another shareholding review, which few observers expect to yield more than tiny changes – despite the investment of large amounts of time in the process by the Board of Executive Directors, the staff and country officials.

There is much uncertainty with respect to the Trump government's stance on the World Bank. The Heritage Foundation's long blueprint, *Project 2025*, calls for the US Treasury to leave both the Bank and the Fund. Most likely this is a threat made to gain leverage for making the Bank act more fully in line with US foreign policy objectives while at the same time cutting US financial contributions to the Bank.

It is possible that a transactionally-oriented Trump government would favor a deal that reduces American financial contributions to the Bank while substantially raising those of China (currently the most under-represented country in terms of shareholding and votes relative to GDP), provided the US at the same time retains its veto, and also retains the gentlemen's agreement that US gets to appoint the Bank's president (while the Europeans retain the parallel privilege for the head of the IMF).

Calling on China to raise its financial contributions to the Bank, and other emerging market economies too, would rhyme well with Trump's pressure on European countries to raise their contributions to NATO.

It is likely that China would be happy to contribute more financially — provided its shareholding and votes are raised substantially to match its much-increased relative weight in the global economy. It can signal that otherwise it will lose interest in the Bank and redouble its efforts to build up institutional competitors. But if the US and China struck this kind of deal the deadlock would be broken.

President Xi Jinping could portray it as a victory for himself and China. In turn, Trump might play a World Bank deal to his advantage in other dealings with Xi.

Trump would probably delight in the outrage such a deal would provoke amongst pundits and commentators — that a US government allowed China to take a larger shareholding stake in the Bank. He might reply that he is in the business of getting better deals for America, and making China pay up and take more responsibility for the World Bank is a better deal for America.

Beyond that, the dealmaker may derive considerable satisfaction in breaking a deadlock that has prevailed in the Bank for decades. A deal might be brokered as soon as soon as the Spring meetings of the World Bank and the IMF in late April 2025. This would give Trump grounds for declaring another resounding victory within his first 100 days. Other states could applaud both Trump and Xi for striking a deal in these times of faltering global cooperation which actually strengthens multilateralism.

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Featured image credit: Trump White House Archived via Flickr.

## About the author

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