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Book Review

Title: 'Controlling Institutions: International Organizations and the Global Economy'

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In an integrated world of today, the responsibility of governing global economic affairs largely lies on international organizations such as the International Monitory Fund (IMF), the World Trade Organization (WTO) and European Union (EU). In response to the acceleration of worldwide social and economic interdependence, especially after the end of the cold war, these international organizations have been playing crucial role in regulating economic affairs at a global scale. Because of the abysmal power gaps, however, the member states are not able to exercise equal control over the functioning of these organizations, and as such the power balance visibly tilts toward the powerful states. To balance the interests of the powerful and the weak member states, these international organizations usually combine formal and informal rules in conducting their operations.

The book under review, authored by Randall W. Stone, titled "*Controlling Institutions: International Organizations and the Global Economy*" explains the ubiquity of informal influence, and the interplay between formal and informal rules in global governance systems. The author presents the coexistence of formal and informal rules, and how informal rules influence the functioning of international organizations with particular reference to IMF, WTO and EU. The contents of the book are presented in nine complementary chapters grouped into three broad parts, beside a separate chapter for introduction. The first part of the book deals with theory of international organizations and the models of informal governance systems. The second part focuses on analysis of cases and qualitative description of the formal and informal governance arrangements in IMF, WTO and EU. Part three dwells on intensive hypothesis testing and quantitative illustration of the logic of informal governance theory and model based on series of case studies focusing on financial crisis in five different countries.

In his empirical study, the author employed rigorous methodology to gather facts and evidences to test the logical consistence of the practice with the existing theories and models of informal governance. The empirical dimensions of the subject are assessed on the basis of extensive qualitative work in the IMF archives, interviews with IMF staff and executive directors, and quantitative work using the IMF records of conditionality for lending. The author's personal

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experience and exposure to IMF operations, and the findings of his previous studies have also enriched the substantive contents of the book.

As a backdrop for analyzing the interplay between formal and informal rules in international organizations, right at the outset of the book, the writer presents a theoretical perspective of informal governance in the context of international politics. The author asserts that political institutions operate according to two sharply divergent sets of rules (i.e. formal and informal rules) that can be invoked under different circumstances. He also explicates how the powerful states exhibit their interests through informal influence and the factors contribute to informal manipulation by powerful states. In addition, he explains how the interests of powerful states influence delegation of authority to international organizations, its influence on their ultimate legitimacy and the reason why the weak member states are willing to participate in international organizations and tolerate a degree of informal influence. In spite of the fact that these institutions serve as potent power resources for influential states, the author's way of argument, however, seems to have been extremely undermining the role of formal rules in global governance, the rising influence of newly emerging powerful developing countries on international agenda as well as the ultimate autonomy of the institutions under investigation. Especially, in assessing the functioning of IMF and WTO, the writer appears to present the United States (US) as an exclusive sovereign power to set the agenda for international forum, to influence the courses of the dialogue and significantly determine the outcomes. In general, he tends to create the image that international institutions are almost handicapped in influencing the interests of the powerful states. Contrary to this, however, the author argues that the modes of formal and informal governance are robust and exist side by side; rather than that informal governance eclipses formal governance or renders it insubstantial.

According to the author, as far as the interests of the two parties are not seriously affected, an institution that incorporates informal governance can be Pareto improving. However, in situations where strong power politics and rivalry strongly prevail, this contention seems impractical as it is less likely for the interests of the member states to be non-contesting and in harmony with each other. As the writer himself describes, weak states are allowed to make use of formal power only in ordinary times, when the interests are not too diametrically opposed, and if the shocks to the preference of the powerful and weak countries are not too highly correlated.
In addition to a theoretical explanation on factors determining the institutional design of international organizations - like structural power of member states, formal voting rights and informal rules - the author tries to illustrate the interaction among these factors using quantitative model. Although the model serves to clarify the theory of informal governance to a certain degree, it seems less pertinent to represent such a type of complex and interwoven political, economic, formal and informal components using a simplistic quantitative model.

In his qualitative analysis about the IMF, the author sheds light on the criteria for formal voting in IMF and its institutional features. He mentions the weakness of the Executive Board and the subsequent delegation of authority to a strong management, weak oversight and lack of transparency as main factors that created a loophole for the powerful state (i.e., the United States) to exercise its tacit informal control over the organization and made the cost of manipulation low enough to be tolerable for the leading power.

The writer also describes the trade regime over which WTO presides as one of the most conflict prone area. He also figured out the subsequent risks in delegating excessive authority to the organization and the possible unwelcome results of stronger informal governance. According to the observation of the writer, the action taken to minimize the possible unwarranted outcomes in both cases was to reinvent the international trade regime in a legalized form while limiting its authority to the adjudication of disputes. As the writer states, the formal bargaining procedure of WTO is fair enough that the parties continue to use it, and developing countries have been increasing their participation and challenging the policies of the most powerful countries in the world. On the other hand, he mentions that bargaining between developed and developing countries is asymmetric even when it takes place in the shadow of law. It is undeniable that fairness enhances participation, but increase in participation of developing countries in WTO and their compliance to the decisions may not necessarily indicate the fairness of the bargaining among member states. Rather, powerful states' threat to exclude countries from the trade regime that refused to agree to new rules seems to be more prevalence than rule-of-law. Furthermore, as the author himself witnesses, WTO is an organization which is bestowed with mere adjudicatory power without having legislative rule-making authority, lest it can be typified as the most formalized entity.

EU, like the IMF and the WTO, is also presented as an institution which combines elements of formal and informal governance. According to the writer, the mode of informal governance in EU focuses attention on the distribution of structural power because of the existence of several countries that can compete for the role of leading power. From this fact, it is possible to infer that the theory and model of informal governance set ahead by the author seem less applicable for EU which is characterized by absence of single hegemonic power and relatively flat power structure among member states, unlike the IMF and WTO.

The author conducted a rigorous hypothesis testing on the basis of empirical evidences from the lending behavior of IMF to demonstrate the informal influences of the United States throughout the programs of the organization starting from decisions about the amount of access allowed to IMF resources, to negotiation over conditionality, and to enforcement of conditionality. The robust and tacit influence of the United States is clearly revealed in this section. Taking the "degree of access granted to IMF resources" as a key dependent variable, the author tries to illustrate and confirm the involvement of the US informal influence. For the purpose of testing the hypothesis, he used detail empirical findings drawn from five prominent financial crisis in different countries - Mexico (1994-95), Indonesia (1997), South Korea (1997), Russia (1998) and Argentina (2001). Since all the cases were from strong developing countries and selected on the basis of purposive sampling for their systematic importance, as the writer mentions, the findings of the study may not sufficiently represent the scenario in less developed Countries (LDCs) and highly developed nations.

The quantitative and qualitative evidences presented by the author, admittedly, shed light on the tacit informal influence of the powerful state on the functioning of IMF. However, the reality in the IMF - an organization which is characterized by substantial degree of executive delegation, secrecy, and high degree of susceptibility to United States - may not necessarily signify the nature of informal governance in other international organizations (i.e. WTO and EU in this case) which involve significantly different missions, organizational features, membership, structural design and power politics.

To put it in a nutshell, the book under review deals with one of the most intricate political and economic issues at a global scale. Regardless of certain inconsistencies in the arguments and inadequacy of the cases to make generalizations, the author vividly illustrates the ubiquity of informal governance and its interface with formal rules in the context of international organizations. The mixed research approach employed for the study, the empirical evidences and tangible facts gathered from real cases, the systematic procedure to test the hypotheses, and the logical link between the theoretical explanations and empirical facts make this book one of the most valuable and worth reading material in the area of power politics in the context of international organizations.