



## CHINA'S "WIN-WIN" DEVELOPMENT BARGAIN: CHINA, THE ASIAN INFRASTRUCTURE INVESTMENT BANK, AND THE INTERNATIONAL ORDER

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Fifty-seven countries, led by China, will launch the Asian Infrastructure Investment Bank (AIIB) on June 29 in Beijing. As its name suggests, the bank will provide financing for infrastructure development across Asia. Two months ago, Chinese President Xi Jinping trumpeted China's role in the creation of the AIIB as well as other development initiatives at the Asian-African Conference in Indonesia. There, he explained to the delegates from over a hundred developing countries how China's development initiatives would benefit both China and their countries, a win-win proposition.

But those initiatives may also serve another purpose: to help China create a more Sino-centric international order. By providing loans for new infrastructure projects that tie developing countries more closely to it, China could reshape their economic interests and gain greater influence over how they see the world. As one Central Asian analyst once summed up: "China doesn't only buy loyalty with documents, but with money given at a low percentage."<sup>1</sup>

### Economic Motivations

At the Asian-African Conference, many developing country representatives were keen to learn about the sorts of economic development assistance that they might expect from China. Xi did not disappoint. He promised that China would actively participate in many of their regional economic development forums. More specifically, Xi offered Chinese help "with the building of high-speed rail, expressway and regional aviation networks and facilitating the industrialization process in Asia and Africa." Plus, "by the end of this year, China will extend zero-tariff treatment to 97 percent of tax items from all the least developed countries having diplomatic ties with China." But his remarks on China's major infrastructure-financing initiatives probably drew the most attention. He underlined China's contribution of \$50 billion to the AIIB and \$40 billion to the Silk Road Fund. Both funding vehicles will play important roles in the development of China's "Silk Road Economic Belt" and "21st Century Maritime Silk Road" (together known as the "One Belt, One Road" initiative) over the years ahead.<sup>2</sup>

No doubt China will profit too. Chinese construction firms will likely be hired to build many of the proposed infrastructure projects. Improving transportation links between China and developing countries (as well as inside them) will also reduce the friction to trade. That will benefit Chinese industry, which has long relied on natural resources from these countries. Ultimately such economic engagement would help China "realize the Chinese dream of great national rejuvenation."<sup>3</sup>

<sup>1</sup> "Riches in the near abroad," *Economist*, Jan. 28, 2010.

<sup>2</sup> Xi Jinping, President of the People's Republic of China, remarks, Asian-African Conference, Jakarta, Indonesia, Apr. 22, 2015.

<sup>3</sup> *Ibid.* As Xi defines, the Chinese dream of national rejuvenation entails "completing the building of a moderately prosperous society in all

## Political Undertones

Xi's speech also drew a sharp contrast between China's approach to development assistance and that of the West. Whereas Western assistance often comes with conditions on recipient countries for political or economic change, "China would continue to provide assistance to developing countries without... conditions," he said. That was part and parcel of China's view of state-to-state relations, countries should deal with each other on the basis of "mutual respect and equality." Twice, Xi referred to China's "five principles of peaceful coexistence," the most important of which is mutual non-interference in each other's internal affairs.<sup>4</sup>

Most developing countries, including those in Southeast Asia, have long been sympathetic to the concept of non-interference. It was even enshrined as one of ASEAN's founding principles in 1967. At the time, many Southeast Asian countries were concerned about the encroachment of Soviet or Chinese communism, not to mention each other. But after the Cold War, they faced new pressure from the West, which made much of its development assistance conditional on their adoption of its notions of good governance. That has kept the concept of non-interference fresh in the minds of the region's countries. Exacerbating their frustration with the Western approach, the West has often pressured Southeast Asian countries precisely when they were at their most vulnerable. They well remember the harsh conditions that the International Monetary Fund foisted on them during the darkest days of the Asian Financial Crisis in 1997–1998.

China has a different approach. The AIIB and China's Silk Road Fund are unlikely to attach many conditions to their investments. Such competition may serve to push Western-led organizations like the Asian Development Bank and World Bank to eventually loosen their investment criteria. In that respect, China could soon alter the landscape of international development assistance.

While developing countries might embrace some aspects of China's approach, like non-interference, they are wary of others. Developing countries remain committed to the idea of equality in the international family of countries. But in a Sino-centric international order, there is a hierarchy. Chinese economic largesse comes with the expectation that smaller countries should defer to China's interests. Chinese Foreign Minister Yang Jiechi made that clear at a meeting of ASEAN foreign ministers in 2011. Irritated by criticism of China's pursuit of its interests in the South China Sea, he mocked his Vietnamese hosts and quipped, "China is a big country and other countries are small countries, and that's just a fact."<sup>5</sup>

Some smaller countries, like Cambodia, that have become reliant on Chinese developmental assistance have also become more compliant with China's views. For example, Cambodia's position on the South China Sea dispute has hewed closely to that of China. When Cambodia's fellow ASEAN countries, the Philippines and Vietnam, sought to use their organization to put more pressure on China to negotiate multilaterally, Cambodia balked. Cambodia's Foreign Affairs Secretary of State Soeung Rathchavy dismissed their effort as impractical. "ASEAN can't settle this dispute," he said and then downplayed China's detractors as "countries which have made noises."<sup>6</sup>

China has sought to repeat its success in Cambodia with other countries across Southeast Asia. By building more roads and railways and encouraging commerce over them, China can begin to bind the region's interests more tightly to its own. Its latest effort has been in Thailand, whose relations with the United States worsened in the aftermath of Thailand's 2014 military coup. China has pledged to help finance a new railway to link Kunming and Bangkok.<sup>7</sup> More development initiatives such as this may help to drive progress toward a more Sino-centric international order.

## Will China's Development Bargain Succeed?

Over the last decade, Chinese-funded economic development projects have proliferated. Most have been driven by high-level political calculation rather than rigorous due diligence. But just because China's development assistance comes without strings does not mean it will succeed. Needless to say, history is littered with disappointing economic development schemes. One such project was the construction of Pakistan's transshipment port at Gwadar. Underwritten by Chinese loans, the facility has stood largely idle since it opened in 2007, hardly a resounding success. Now China intends to pour \$1.6 billion more into it.

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respects when the Communist Party of China celebrates its centenary in 2021 and having a prosperous, strong, democratic, culturally advanced and harmonious country when the People's Republic celebrates its centenary in 2049."

<sup>4</sup> *Ibid.*

<sup>5</sup> Joshua Kurlantzick, "The Belligerents," *New Republic*, Jan. 27, 2011.

<sup>6</sup> Prak Chan Thul, "Cambodia says ASEAN should stay out of South China Sea fracas," Reuters, May 7, 2015.

<sup>7</sup> Masaaki Kameda, "Abe, Thai junta leader agree to cooperate on railway development, special economic zone," *Japan Times*, Feb. 9, 2015.

Beijing envisions the port as the southern outlet of its China-Pakistan Economic Corridor. But unless the new funds can make the region around the port safer, trade through it will likely remain a trickle.

On a larger scale, the China Development Bank (CDB) has lent Venezuela about \$50 billion since 2007. The money has helped to support the regime of Hugo Chávez and his successor, Nicolás Maduro. In exchange for its infrastructure loans, China expected an ever increasing flow of Venezuelan oil. But that flow has not met expectations. In October 2014, the CDB agreed to allow Venezuela to deliver less than the minimum daily amount of oil that it originally promised China. Certainly, Chinese loans have garnered a lot of goodwill from the Venezuela's Chavista government, but they have not delivered greater development for Venezuela or an economic return for the CDB. Still, in January 2015, Venezuela announced that China plans to provide it with \$20 billion more in development loans.<sup>8</sup>

Ultimately China's largesse is not limitless. China's bargain will work only if it can demonstrate that stronger economic integration through its "One Belt, One Road" scheme can deliver prosperity to all. If China succeeds, that will have profound political effects. It may allow foreign governments to stay in power longer than they would have otherwise. It would enable China to capture even more of the world's trade and thereby give China a greater say over its conduct. Increased economic integration means that more countries of the world many find their economic destinies intertwined with that of China, drawing them closer to China's view of international order and further from those of the West.

For the moment, its record of economic growth gives China the benefit of the doubt that it can expand the economic pie for all. But those are risky laurels to rest on, judging by China's worsening economic climate. Despite cutting its interest rates three times and its reserve requirement ratio for banks five times in the last half year, China has barely stabilized its economy. Some economists argue that "stimulus alone cannot solve China's economic challenges and would be unlikely to have the desired effect on investment, given weak demand."<sup>9</sup> Meanwhile, Chinese officials fear that "the mountain of debt from the rapid expansion of credit over the past few years is weighing on efforts to pick up [China's] economy."<sup>10</sup>

Either way, it is becoming harder for China to sustain growth even at a more modest pace. Already Chinese imports of natural resources from developing countries have slowed. If China cannot revive its own economy, its trade with them will slow further and perhaps make much of their newly built infrastructure redundant. That would end up saddling those countries with more debt and the AIIB with bad loans.

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<sup>8</sup> Marianna Parraga and Daniel Bases, "Venezuela may have missed \$24 billion in oil revenue in 2014," Reuters, Apr. 24, 2015; Alexandra Ulmer, Corina Pons, and Eyanir Chinae, "Venezuela says China to invest over \$20 billion, mum on loans," Reuters, Jan. 7, 2015.

<sup>9</sup> Pete Sweeney, "China June factory activity shows signs of stabilization," Reuters, Jun. 23, 2015.

<sup>10</sup> Lingling Wei, "China Cuts Interest Rates as Economic Growth Slows," *Wall Street Journal*, May 12, 2015.