



THE ASIAN INFRASTRUCTURE INVESTMENT BANK: WHO WILL BENEFIT?

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Few international economic initiatives have aroused as much controversy as China's Asian Infrastructure Investment Bank (AIIB). First bruited in 2012-2013, after the developed world, putatively led by the United States, resisted expanding the quota, and therefore the votes, of the People's Republic of China (PRC) in the International Monetary Fund (IMF) and the World Bank, the new bank's stated aim is to provide funds for infrastructure needs in Asia, which will require an estimated \$8 trillion to meet. Beijing has pledged to contribute an initial sum of \$50 billion.

While some view the bank as challenging the world financial order established at Bretton Woods in 1944, others take the more benign view that it will supplement that order, with global development the beneficiary. The AIIB will co-exist with the Asian Development Bank (ADB), which although headquartered in Manila has been dominated by China's archrival, Japan. The Obama administration, perhaps preoccupied with other issues, appeared to ignore the preliminary discussions on the AIIB. Becoming engaged only recently, it cautioned other states to beware of the initiative, seeing the bank as a first step toward creating an alternate international financial order that will eventually efface that of Bretton Woods. Washington's admonitions against joining did not deter 52 countries from applying to become founding members by the deadline of March 31. To the U.S. administration's chagrin, these included traditional allies Great Britain, Australia, Taiwan, and South Korea as well as Germany, France, and many other European as well as less developed states. 33 applicants have been accepted, the rest have been told that they will be informed by April 15 if they have been approved.

From Beijing's point of view, the bank makes sense. China has accumulated an estimated \$4 trillion in reserves, far more than can be absorbed by the domestic economy. Putting this capital to work in areas where it is needed can generate returns while—hopefully—winning friends and allowing Beijing to increase its international influence. On the recipient side, obtaining financing for infrastructure development is important for developing economies world-wide. The highways, railroads, dams, and pipelines that have been on their wish lists may now become realities. The rationale of the 14 advanced economies that elected to join appears to be that it would be unwise to remain on the periphery of the organization, given the immense size of the PRC's import and export markets. These even include Norway, whose relations with China have been less than cordial since Beijing held the Norwegian government responsible for the Nobel Peace Prize committee's award to imprisoned Chinese dissident Liu Xiaobo.

Chinese participants in a recent Track II diplomatic exercise in Beijing professed bewilderment at the Obama administration's hostile attitude toward the AIIB, arguing that, rather than resent the PRC's initiative, the United States should welcome it.

Obama, they noted, had only a few months ago accused China of being a free-rider on the international system;¹ hence America should welcome rather than criticize the PRC's efforts to take a more active role in the world.

The bank, to be based in Beijing, is Asia-focused, which seems appropriate, given the increasing weight of the region in the world economy. All but three seats on the AIIB's twenty-person board are reserved for Asian states; they will hold about 75 percent of the shares, with the remainder allocated to non-Asian members. Beijing attempted to assuage concerns that it will dominate the bank by announcing that it would not exercise veto power and, in recognition of the PRC's notoriously corrupt society, that it would have zero tolerance for corruption. It also promised transparency, equal consultation, and respect for other members' choices.²

Within the developed world, there was a great deal of finger-pointing. A vice-president of the European Commission and former World Bank official told a Brussels forum "...if we paid more attention, we would have had more normal relationships."³ Robert Zoellick, a former Deputy Secretary of State, U.S. Trade Representative, and World Bank president, termed the administration's approach mistaken on both policy and execution.⁴ Others used terms like "ham-fisted" and "inept". The French left-of-center daily *Le Monde* virtually crowed that China had won an important victory in the grand battle for domination of the world economy and called the United States "mauvais joueurs," sore losers.⁵ A columnist for the Qatar-based Al-Jazeera network termed America's policy a strategic blunder, and concluded that "...it is clear that Washington has been eclipsed as the economic pivot of Asia."⁶

While this displacement may happen, it is a premature claim. Particularly among Southeast Asian states, there are fears of becoming too tightly linked to an economic network based in the PRC. They have presumably not forgotten the Chinese foreign minister's pronouncement at a 2010 ASEAN meeting that small states would have to get used to the reality that they were small states while China was large.⁷ Given the disproportionate amount of capital Beijing plans to contribute to the AIIB, there are widespread concerns about the weight that Beijing's voice will carry.

Environmental and quality issues are a further concern. It seems likely that Chinese companies will receive the bulk of contracts for infrastructure improvement. There have been complaints from Africa, Latin America, and Southeast Asia of inattention to both ecosystems and quality controls. Indonesia has complained about the construction standards of Chinese-built power plants. Burma is seeking to back away from controversial projects that were contracted for by its former junta government. Under the junta, Burma was treated as a pariah state by much of the world, and hence became heavily dependent on Chinese aid. In, 2011, its successor government, responding to widespread citizen opposition, suspended a Chinese-backed dam project; in 2014 it delayed a plan for a \$20 billion rail line between Yunnan province in China and Burma's Rakhine state. A controversial copper mine that caused pollution, forced relocation of residents, and illegal land confiscation led to charges that Beijing's real aim in not, as advertised, mutual benefit but the extraction of Burma's natural resources for its own benefit.⁸ Sri Lanka has suspended a major project to develop the port of Colombo over environmental and sovereignty issues.⁹ Vietnamese note that Chinese traders who contract for a variety of star anise flowers that is used for medicinal purposes have removed not only the flowers but the roots, thus both harming the environment and depriving farmers of an important source of revenue.¹⁰

The issue of joining is particularly sensitive in the Republic of China on Taiwan, where opponents fear that the conditions Beijing would impose on its joining, such as insisting on a name that would indicate subordination to the PRC, will forfeit the island's fragile claim to sovereignty. Supporters argue that, in light of the economic benefits it will bring, what they term a

¹ *Reuters*, August 9, 2014.

² Wang Shang, "Accusations against China's New Intra-regional Initiatives Groundless," *Xinhua* (Beijing), April 1, 2015.

³ Valentina Pop, "EU Official Says Neglect Pushed China to Set Up Development Bank," *Wall Street Journal*, March 21, 2015.

⁴ Ying Ma, "An Influential Voice Slams U.S. Handling of new China-Led Infrastructure Bank," *Wall Street Journal*, March 19, 2015.

⁵ Unsigned editorial, "Economie Mondiale: L'Ordre Chinois Progresse," *Le Monde*, April 1, 2015.

⁶ Richard Javad Heydarian, "The Power of the New China-led Investment Bank," *Al Jazeera* (Doha), March 31, 2015.

⁷ John Pomfret, "U.S. Takes a Tougher Tone with China," *Washington Post*, July 30, 2010.

⁸ William Boot, "The Irrawaddy Business Roundup," *The Irrawaddy*, January 3, 2015, <http://www.irrawaddy.org/business/irrawaddy-business-roundup-jan-3-2015.html>

⁹ Shannon Tiezzi, "Suspended Sri Lankan Port Project Complicates Sirisena's Trip to China," *The Diplomat*, March 26, 2015 <http://thediplomat.com/2015/03/suspended-sri-lankan-port-project-complicates-sirisenas-trip-to-china/>

¹⁰ Tom Wright and Mitsuru Obe, "Vietnam Plays Key Role in China-Japan Aid Battle," *Wall Street Journal*, March 27, 2015, <http://www.wsj.com/articles/vietnam-plays-key-role-in-china-japan-aid-battle-1427431451>

minor slight is the lesser of the two evils.¹¹

In Japan, already smarting at the loss of its position as the world's second largest economy to the PRC, there are concerns that the country's failure to participate will inhibit Japanese companies from participating in the anticipated mass infrastructure projects. Foreign Minister Tarō Asō denied that Japan's decision was a diplomatic defeat. He discounted worries that the country's industries would be shut out of infrastructure project, promising that the government and commercial banks were poised to provide assistance. Assuming that Tokyo's conditions, which include the establishment of a strong governance system, are met, Asō continued, Japan might consider joining the AIIB at some future time.¹²

Some Chinese felt that the bank might be better off without Japan. A commentator in the Beijing-owned Hong Kong daily *Ta Kung Pao* opined that Tokyo would seek to change the operation of the bank to suit its own interests, leading to internal conflicts that would defeat the AIIB's aims.¹³ While most contributors to the PRC's censored social media saw the accession of European states as a blow to U.S. leadership, one warned that Britain's presence might indicate a conspiracy: the UK was an "undercover agent planted by the United States" in order to exercise control from behind the scenes.¹⁴

Member states are aware that those who anger Beijing are apt to incur its wrath in the form of economic sanctions: the PRC imposed a variety of sanctions against Japan in 2010 after a Chinese fishing boat rammed two Japanese coast guard cutters in contested waters, halted imports of Argentina's soybeans in the same year when President Cristina Kirchner filed dumping charges against the PRC in the World Trade Organization, and in 2012 banned Philippine fruit after a dispute involving sovereignty over Scarborough Shoal. All three states quickly backed down in the face of losses to their respective economies.

Those who are sensitive to human rights issues remember that the promises made to improve them as a condition of being awarded the 2008 Olympic Games were largely ignored. There is also the difficulty of extirpating embedded corruption, President Xi Jinping's energetic campaign against it notwithstanding. As well as awareness that there can be many different opinions on what exactly constitutes transparency, with Beijing's definition probably prevailing.

Still, Beijing may have overreached itself. It has backed two other financial institutions, both to be headquartered in Beijing and predominantly financed by the PRC: a BRICS bank in spite of the problems in several of the BRICS' economies, and a Shanghai Cooperation Bank, despite objections from Moscow.¹⁵ And this at a time when the PRC's economic growth rate is slowing, resulting in the postponement of structural reforms deemed necessary to enhance its future prospects.

A first test will be at the end of April, when members will meet to discuss share distribution and select officials. Jin Liquan a well-regarded former PRC deputy finance minister and former ADB vice-president is expected to be named the AIIB's governor. Several states, Indonesia most publicly, have lobbied to have one of their nationals as deputy governors and put forth various conditions. Satisfying their competing demands will require careful coordination and the utmost diplomacy.

For now, Washington seems to be taking a wait and see attitude. Treasury Secretary Jacob Lew, in Beijing for consultations, said he welcomed the new bank and would encourage it to coordinate with existing financial institutions such as the World Bank. However, he also warned that poor lending and governance standards could harm rather than help global development.¹⁶ Asian Development Bank officials have also pledged cooperation. The burden is now on Beijing to deliver on its ambitious plans and to live up to the promises it has made.

¹¹Unsigned editorial, *Want China Times*, (Taipei), April 3, 2015. <http://www.wantchinatimes.com/news-subclass-cnt.aspx?cid=1701&MainCatID=17&id=20150403000094>

¹² *Jiji* (Tokyo), April 3, 2015.

¹³ Shih Chun-yu, "Japan Can't Have Its Cake and Eat it Too in AIIB," *Ta Kung Pao*, April 3, 2015.

¹⁴ TonyS2011 *Sina Weibo*, March 14, 2015. <http://weibo.com/2091273435>.

¹⁵ Chris Rickleton, "By Opposing SCO Development Bank, Is Russia Biggest Loser," *Eurasianet*, (New York), March 25, 2015. <http://www.eurasianet.org/print/72701>

¹⁶ Ian Talley, "Treasury Secretary Lew Criticizes China for Delaying Plans to Open Up Economy," *Wall Street Journal*, April 1, 2015. <http://www.wsj.com/articles/jacob-lew-criticizes-china-on-delaying-plans-to-open-up-economy-1427831660>