

## The new geopolitics of AIIB

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By *Dr. Zaidi Sattar*

For the first time Bangladesh is a founding member of a multilateral development bank (MDB), Asian Infrastructure Investment Bank (AIIB), whose majority shareholders are developing countries. AIIB, which was launched on January 16 last, is set to start project lending operation in the second quarter of this year. In my previous write up on AIIB in this column, I focused exclusively on the wider economic implications of this new multilateral institution, which was described by the European Political Strategy Center (EPSC), an in-house think tank of the European Commission, as a “potential economic game changer in multilateral development finance”.

From all indications, the AIIB is likely to have far reaching implications that goes beyond economics. In a way, it symbolises the rise of China as a global player in an emerging development finance architecture of the 21st century. The AIIB is only another manifestation of the country’s quest to offer unparalleled financing capabilities (and increasingly also technical expertise) to help itself and other Asian countries develop infrastructure and wider economic capabilities.

Indeed, the composition of founding members and the diplomatic posturing that preceded the launch of AIIB could mark a watershed in the evolving geopolitics of the 21st century, confirming the rise of China as not just an economic powerhouse but a geopolitical force to be reckoned with. Add to that the geoeconomics of China taking the lead in financing much needed international public goods such as infrastructure and connectivity, and you have the basis for coining a new term, “geopolitics” underlying the emergence of AIIB. China with over three trillion dollars of reserves finally found the right channel to put some of it to good use – to help finance the massive infrastructure deficit in the rapidly growing Asian economies. That has touched a positive nerve even among China’s detractors. The centre of

gravity in Asia seems to be slowly but surely trending towards Beijing as the rise of Asia becomes coterminous with China leading the way.

That Chinese leaders mean business when they make a pronouncement is reflected by the launch of AIIB within a span of two years after the initial announcement by Chinese President Xi Jinping's mission to establish a "proper" world economic order that truly reflects China's elevated economic strength and political status. AIIB, the founding of Shanghai-based New Development Bank (NDB) by BRICS countries, led by China, and the creation of \$100 billion Contingency Reserve Arrangement (CRA), attest to that mission. These three China-led institutions have a combined capital base of \$350 billion, greater than the combined capital of European Bank for Reconstruction and Development (EBRD), African Development Bank (AfDB), and Inter-American Development (IADB). Ostensibly economic and financial in outlook, it will not be surprising to see that these initiatives will be aimed, and overtly used, to increase China's global influence and political reach.

What might have triggered these initiatives on the part of China? Partly, it was the Washington approach for containment of China, reflected in the pursuit of two mega trade blocs - the TPP and TTIP - that conspicuously excluded China. Add to that the disappointment of China in getting traction on proposals to reform the Bretton Woods institutions (World Bank-IMF) to give it and other emerging market economies more voice commensurate with their current economic strength. Since 2010, the US Congress dragged its feet on the reform proposal, approving it only in late 2015. The reforms will give more voting rights to emerging economies like China, India and Brazil - thus making China the third largest quota holder in the World Bank. However, the USA, Europe and Japan will continue to dominate the International Monetary Fund (IMF).

Perhaps this was too little too late. China lost patience and set about creating its own set of multilateral financial institutions mentioned earlier. By now, it is common knowledge that US and Japan tried in vain to keep several of its major allies in the European Union (EU) and Asia-Pacific from jumping on the AIIB bandwagon, fearing the rise of AIIB as a potential rival to the World Bank and Asian Development Bank (ADB). Professor Daniel Drezner of the Fletcher School of Diplomacy called it a "whole-of-government failure of international economic diplomacy as it epitomises a classic case of how the two branches of US government - the executive and legislature - working independently can really muck up foreign economic

policy”.

Analysts of the international geopolitical scene have seen through the weakness of this “China containment policy” – a policy that sees the rise of China and its financial leadership role in articulating the Belt and Road Initiative (BRI) along with supportive institutions like AIIB, NDB, and CRA, through the prism of a zero-sum rather than a positive-sum world view in which any measure by China to exercise regional economic leadership is seen as coming at the expense of US leadership. What is evident is that China does not seem to aim for a complete overhaul or even derailment of the global financial governance system. Because China itself is one of the largest beneficiaries of the current global governance framework, the initiatives to date seem more designed to complement rather than replace the existing financial architecture.

As evidence, one can point to China’s interest in gradually internationalising its financial system. Notably, it recently succeeded in persuading the IMF to add the renminbi to the basket of currencies that determines the value of the Special Drawing Rights (SDRs), the monetary unit the IMF uses in dealing with its 188 member countries. That step – which places the renminbi on par with the major global currencies (the US dollar, the euro, the British pound, and the Japanese yen) – will enhance public- and private-sector acceptance of China’s currency in the international monetary system. A consequential fallout of this arrangement is the expectation – though not the obligation – that China will refrain from aggravating global financial instability.

Detractors of the AIIB have raised concerns about its governance standards and transparency of its procurement process. In response, the Chinese authorities went out of their way to make the preparatory process as inclusive as possible through the high-level involvement of founding members in drafting the articles of agreement (AoA) and operational and financial policies to ensure strong ownership as the bank starts operations. The goal was to develop a world class charter with the governance arrangements of a 21st century global financial institution. Nevertheless, it is possible that AIIB finance will be preferred in emerging markets because it will come without the economic prescriptions of other multilateral development banks (MDBs), such as the World Bank, — a prospect that policymakers in Bangladesh would be welcoming. All in all, initial reading of the preparatory process suggests that the AIIB is setting off on a journey to become the preferred multilateral bank for financing Asian

infrastructure and connectivity while striving to maintain the highest standards of governance and efficiency. Its management highlights may be summarised thus:

- — an inclusive shareholding structure, ensuring that the voice of all its members-small and large alike-will be heard;
- — a governance structure that ensures clear division of responsibility, efficiency and cost-effectiveness, by opting for a non-resident board that focuses on strategy and policy while management is engaged in implementation;
- — inclusiveness through strong ownership of founding members who were involved in the drafting of AoA and operational and financial policies;
- — universal procurement policy and high-standard environmental and social framework policies, building on global best practices;
- — a strong implementation culture where staff is trained to focus on swift, responsive problem-solving;
- — a multilateral development bank with a focused mandate to build Asian infrastructure that is starved of adequate resources.

In concluding, it must be emphasised that AIIB is a large MDB owned and controlled by Asia's emerging and developing countries. These countries are trying to mobilise their own resources to finance their own infrastructure investment on their own terms – a laudable self-help approach. Yet, it cannot be ignored that AIIB is only another manifestation of the emergence of China on the global stage. It epitomises China's economic interests, which include: democratising the international economic order, internationalizing the renminbi, extending regional influence, assisting China's Belt and Road initiative, diversifying China's investment portfolio, and promoting China's exports. The very positive development is that China is using its economic clout and financial power to finance international public good like infrastructure in the form of strengthened infrastructure development and connectivity in

Asia. Surely, this is a geopolitics strategy that will help win hearts and minds in Asia.

The die has been cast. Soon the jury will be out and the world will be watching to see if AIIB will be an MDB with high standards of transparency and governance providing resources for a much needed Asian public good (infrastructure), or as a bank that mainly serves China's geopolitical interests.