How China and the United States Can Come to Terms on the Asian Infrastructure Investment Bank

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With two major announcements on trade and climate at November’s APEC meetings, the United States and China have leaped into a highly productive bilateral relationship in the economic sphere. It’s all the more striking then to hear the discordant tone struck around the Asian Infrastructure Investment Bank (AIIB). In recent months, the White House has made clear its displeasure about the AIIB and Asian countries that would seek to join the Chinese in this new institution.

If both countries can find common ground on politically sensitive climate and trade issues, why would the question of how the US and China choose to support development in other countries be such a lightning rod?

The confrontational stance becomes clearer when we recognize that institutions like the World Bank, Asian Development Bank (ADB), and now the AIIB play multiple roles. Yes, they are critical, sometimes indispensable sources of financing and know-how for a diverse and large number of developing countries. But for this very reason, they are also critical sources of strategic influence for the countries who exercise control over them as their largest shareholders. For the World Bank and to a lesser degree the ADB, that means the United States, and for the AIIB, that will mean China.

Hence the alarm coming from the US as China moves quickly to establish a new multilateral development bank (MDB) and attracts much of the region, including key US allies, to join. US officials have taken to the press and to diplomatic channels to cast a skeptical tone toward the AIIB and try to dissuade other countries from participating in the new institution.

But if the world’s two largest economies can come to terms on trade and climate, then surely they can find common ground on the MDBs. To do so will require some concessions from both countries. The good news is that a deal here would not just benefit the US and China. In fact, the biggest beneficiaries of a “development détente” would be the region’s poor, as more financing would be unlocked for pro-growth investments in Asia’s developing economies.

Yes, the Australians may have been temporarily persuaded to decline China’s invitation as a result of US diplomatic efforts, but for the longer term, this is a losing strategy since it amounts to telling countries not do what they view is in their best interests.

And with little likelihood that the United States itself would ever become a member of the AIIB – legislative procedures alone make it prohibitive – it is all the more useful for the Americans to have like-minded countries as AIIB shareholders who can serve as effective proxies for US views within the institution.

But the real opportunity for a constructive policy shift from the United States comes at the ADB, not the AIIB. After all, if the US wants to maintain regional influence through a multilateral institution, then it ought to focus on the
China could also make straightforward commitments to universal and transparent procurement rules without adopting a line-by-line version of existing MDB rules. After all, the World Bank’s own procurement standards are in the midst of an overhaul, so the AIIB has no fixed target even if it wanted to adopt all of the existing rules. But a commitment to universal procurement would set a good tone by demonstrating that the AIIB is not intended to be an exclusive club for member countries’ commercial interests.

Other areas of operational standards and safeguards are more challenging, and the Chinese would do well to avoid a wholesale adoption of existing MDB rules, even as they take steps to demonstrate a firm commitment to underlying principles. Like procurement, rules related to environmental and social standards are under active review at the existing MDBs, where more regulation over the years has too often been falsely equated with more effective standards.

Starting with a clean slate, the AIIB has the opportunity to explore a new path for these standards. The new institution will be facing skeptics in the West when it comes to social and environmental issues, so the Chinese would do well to demonstrate a serious approach early on.
There are a number of areas where the AIIB could usefully depart from the norms of the existing MDBs entirely. For example, would the Bretton Woods architects have so quickly established resident boards of directors, with annual costs in the tens of millions of dollars, in an era of instantaneous global communications?

Chinese officials have already made broad-brush commitments to align the AIIB with existing MDB practices and standards. The difficult work of translating those commitments into detailed policies remains ahead. A key demonstration of good faith will be active consultation and engagement with the ADB and World Bank as policies are developed.

With a development détente, the United States and China can add a third major outcome to their recent string of bilateral successes. Much like the climate agreement, coming to terms on the AIIB and ADB is not just about what is good for the US and China. It’s ultimately about how these two actors, working through multilateral institutions, can better serve the development aims of the global community.