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CHINA'S NEW MULTILATERAL STATEMENT: THE ASIAN INFRASTRUCTURE AND INVESTMENT BANK

LA NUEVA DECLARACIÓN MULTILATERAL DE CHINA: EL BANCO DE INFRAESTRUCTURA E INVERSIÓN DE ASIA¹

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¹ All the information that will be quoted on the following article does not consider special territories as Hong Kong and Macau.

Resumen

La creación del Banco de Infraestructura e Inversión de Asia (BIIA) fue uno de los últimos movimientos en confirmar el nuevo lugar de la República Popular China, no solo como un exportador mayor sino como un pilar de la economía mundial. Esta instalación aparece en un momento cuando Asia y otros poderes están llegando a niveles muy altos, no solo con el sinnúmero de oportunidades que arriban de unos robustos lazos económicos, sino también con ansiedades por parte de los grandes poderes y los países vecinos al verse con un rival ante la resurrección de antiguas disputas.

Beijing ha asegurado su primacía en la estructura y procesos de toma de decisiones del banco, ya que se considera necesario que un poder actúe como garante de su funcionamiento. Adicionalmente, instituciones similares han sido relativamente exitosas más no inmunes a críticas y riesgos, tales como el bloqueo en el proceso de toma de decisiones, originado en intereses divergentes de miembros. Para prevenir esto, el BIIA debe ser capaz de producir resultados tangibles, otorgar una membresía digna de volverse universal, desarrollar una serie de políticas núcleo específicas y probar que puede adaptarse ante una situación traumática.

A pesar de esto, el banco tiene poco más de un año en existencia, y el cumplimiento de los desafíos mencionados aún falta por verse.

Palabras clave

BIIA, República Popular China, Estados Unidos, percepción, Fondo Monetario Internacional, Banco Mundial, lazos económicos.

Abstract

The creation of the Asian Infrastructure and Investment Bank (AIIB) was one of the last movements that confirmed the new found place of People's Republic of China not only as major exporter, but as a new pillar of the world economy. This instalment comes at a time where Asia and other powers come to terms not only of trove of opportunity out of incredibly robust economic ties, but the anxiousness from facing a new found rival for other powers, or the revival of old disputes in the eyes of neighbours.

Beijing has ensured that its dominance upon the bank's structure and decisions since this bodies often need a major power as guarantor of its functionality. Plus, other similar institutions have been relatively successful but no immune to criticisms and risks like decision-making deadlock out of diverging interests from constituents. To prevent this, the AIIB must be able to produce tangible results, grant a membership worthy of being universal, develop a set of core specific policies and prove to be able to adapt in wake of a traumatic situation.

Despite of this, the bank has been in existence for little over a year and the fulfillment of the prior challenges remains to be seen.

Keywords

AIIB, People's Republic of China, United States of America, International Monetary Fund, World Bank, economic ties.

Introduction

The AIIB was the most formidable sign in a series of developments that heralded a swift in multilateral economic policy. This new participant in the cosmos of both international economic organizations was not championed by neither western powers nor Japan, but by the People's Republic of China (from now on China). Even if the rise of China is undisputed, the speed and direction of it are, at the very least, unexpected. The conclusive evidence that proves the importance of this step regarding China's recovered role as major power resides in the membership of this body.

The name often misleads into thinking that this is a small regional scope bank with perhaps less than a dozen members. On the contrary, the memorandum of understanding that created the bank signed on June 29th of 2015 in Beijing counted the signatures of the representatives of 56 states and pleaded to collect a US\$100 billion as base capital which included major European economies like France, Germany and the United Kingdom, who accepted the dominance of China upon the bank's policy and governance. But what does this mean to the perception of China by its neighbours and the world? How does this bank intend to operate? How to compare it with other major organisms like International Monetary Fund (IMF), and its closest counterpart, the World Bank? This article will approach this by first giving a short overview of how the perception of China has changed in recent years, in both close neighbours and the US. Then it explains in further detail the structure of the bank and then it will seek to identify which challenges and features (set by its predecessors) the bank must acquire and met once it starts full operations.

China's economic rise: a short perception overview

Given the millennial history of China, is hard to build a list of places which have not dealt with it. However, the scale and intensity of these interrelations is unprecedented. For the purpose of picturing this article will remit itself to several figures.

According to Trade Map, between 2011 and 2014 chinese exports grew steadily from US\$1.8 billion to US\$2.3 billion world-wide. In that same period imports went from US\$1.7 billion to US\$1.9 billion, condensing into a shrinking trade surplus which currently stands at little over US\$600 million. This stands as evidence of major change upon how the world sees China, especially the immediate periphery, Japan and Republic of Korea, and the still superpower: the United States of America.

In the specific case of the first two a triangle of robust economic interdependence, described in terms of trade and FDI flow, has formed despite of there being difficult political and social hurdles regarding events of World War II and the proxy wars that characterized the Cold War.

Additional to this economic ties robustness, there is a fair degree suspicion, if not animosity, towards China. In the case of the Republic of Korea, in a poll which used as time stamp the period between 2002 to 2009, those who expressed a somewhat favourable image of China fell from 61% to 40% and those who held a somewhat unfavourable view stretched to 47% (Min, Linan & Jie, 2014).

In historical terms China was not only an active ally of Pyongyang, but once it's forces joined the conflict in 1951 they forced a bloody stalemate with the US-led UN forces effectively reaffirming the separation of both Koreas at the Panmunjom talks, forcing whatever links that existed to remain strained until the 80's. Even today communications remain spotty between leaders since animosity still exists over both the perception of historical events or territorial disputes that remain unresolved.



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This perception shift also hit the United States. Such relationship is worthy of being noted since China was the first major communist state approached by the US government. The interdependent nature of the US and Chinese economy moved from market supply to a far more equitable mechanic in whom the US remains as the main destination of Chinese exports, and China is the main holder of US debt. For Glasser (2014), in her paper “US-China Relations Managing Differences Remains an Urgent Challenge”, identified three new aspects in which both countries might swing into conflict: increased tensions over political and economic issues; military conflict as result of an inadvertent or deliberate action; and Cold War- like strategic competition out of increasing mistrust or diverging interests.

The creation of the AIIB can be found falling in the first and last potential source of conflict, since the US has officially declined to join the Bank and criticized the accession of longstanding allies like the United Kingdom and France. Besides, there is the fact that the establishment of this new financial institution has been considered tantamount to the one of the Bretton-Woods system, as it competes in focus to that of the World Bank. On the other hand, this arises the question: are these claims properly substantiated? To answer it, careful thought must be given to the actual structure of the bank and how it intends to operate compared to that of its main rival, the World Bank.

AIIB's structure

The AIIB describes itself as a Multilateral Development Bank (MDB) focused in the development of infrastructure in Asia and insists on complementing and cooperating with other MDB's. Up to this point is very similar to institutions like the International Monetary Fund (IMF) and the World Bank itself. Chin (2016) notes a fundamental difference which is related to the way the bank has setup its governance as a three levelled governance structure composed by: a board of governors and directors; a president; a vice-president and staff; as opposed to the World Bank where there's a sole governor's board. More differences are noted after this point which reflects the commanding

position of China in this institution. At the beginning being China, the main contributor of capital (US\$29.71 billion of the US\$100 billion of base capital), would hold veto powers at the level of the director's board. Such veto powers were upheld once Japan and the United States rejected joining; even if China manifested that upon their accession it would curb its attributions for vetoing decisions and share of voting rights. The formula subscribed in article 28 of the "Agreement articles" of the AIIB can be summarized as follows:

In multilateral banks the way members vote (number of voting rights) is determined by a default formula which differentiates three types of votes: Founder votes (votes exercised by founding members only), share votes (which represent a capital contribution) and basic votes (a pre-determined amount) so decision-making not only has to consider how many members vote for and against but also how much of the bank's capital is represented during the vote itself. In this case, member receives the 12% out of the aggregate sum of all the votes previously mentioned

Within the bank, itself China has built in a "*de facto*" veto power in the main governing corps: The board of governors. Normally, a proposition only needs a majority to pass through this body. Despite of this, when the bill concerns membership, structure of the bank and capital increases not two thirds of the governors must concur but their voting rights must represent three quarters of the total, as well. A condition virtually impossible to fulfill with out convincing the Chinese governors.

Whereas the board of directors, who are elected by the governors, only require a majority but are entitled to cast the votes of several members separately (Articles of agreement, 2015). It must be noted that non-regional members only hold less of a third of the share of voting rights; but Beijing insists, for the sake of perceptions, that it will not dominate nor politicize bank decisions, which is one of the main criticism against this type of specific international organizations (Chin, 2016).

Other MDB's: The standards they've set to the AIIB

The most representative MDB's are the IMF and the World Bank. The two exist since the moment the Bretton-Wood system was established; the admittance to the World Bank is conditioned by the membership to the IMF. Thus, the cases in which a state is not a member are in essence rare.

The most representative cases are Cuba and North Korea; under the argument of the dominance of selected powers. On the other hand, Kahler (2016) describes the features of the first two in particular. First, they are "effective", their actions have practical effects and their institutional framework has evolved to maintain a functional collaboration/regulation framework. Second, their membership is almost "universal". Third, their norms and procedures are "exclusive", once they endorse a practice or policy, it is considered a part of their organizational identity and *modus operandi*. This often gives rise to controversies regarding their effects and intended goals. Fourth, they're "adaptable", these bodies have proven to be capable to cope with new actors and environmental shifts allowing them to potentially expand their lifespan.

Despite of this, life for these is not without obstacles. For starters, reform is often undertaken under severe pressure since the main threat for any international organization is irrelevant. When the economic environment is relatively calm, the demand for the action of this kind of bodies decreases. Plus, the structural and diplomatic constraints of these bodies might make them unsuitable for certain situations. Nonetheless, when crises arise they often provide effective policy guidance with both much needed anchorage for developed economies and incentives to join and engage for emerging economies.

Another delicate area for their bodies is their relationship with their constituents

since this has to balance both efficacy and legitimacy. Such balance becomes harder to achieve, since crises often force these organizations to be far more inclusive. Achieving the necessary consensus to act becomes a difficult task since the agendas of members might conflict with each other. In the specific case of this kind of institutions it can be said, that it has been the conditional support of emerging economies; that often use their accession to this platforms to voice discontent with economic system and push for reforms. As Khaler (2016) explains "Their discontent with the global economic order has centered on two linked issues: asymmetries that are embedded in global institutions and the degree of policy autonomy permitted by the existing global governance rules".

By asymmetries, this refers to the fact that these bodies, contrary to those with general competence or other technical scopes, allow that some members have a more meaningful representation according to the size of their contribution to the basic capital, and often offer perks exclusive for founders. By policy autonomy, it refers to the feature of "exclusivity of practices": particular bodies champion specific policies and often condition membership or support to the domestic enforcement of such policies regardless of current capacities or circumstances.

In the case AIIB the four features mentioned before (effectiveness, universality of membership, exclusivity of practices and adaptability) are not easy to analyse since the bank itself has little over a year of existence. Despite of this, it is showing a potential for universality, even if it failed to woo the United States and Japan into joining. It managed to have Asian tigers like the ROK, major European parties like France, Germany and the United Kingdom, and Oceanic partners like Australia.

Conclusion

The AIIB's instalment comes at time when the world's economic ties with China have reached an unprecedented level; in both value and volume, producing never seen opportunities in the country. On the other hand, this has also caused anxieties related with old conflicts and the Cold War, giving rise to the questions: Is China expanding to create a safe influence perimeter? Or is it expanding to reclaim the status it enjoyed several centuries ago as the only real superpower on earth?

The only thing that so far seems evident is that its influence has grown in such a way that it looks as an attractive alternative to other powers. In the case of AIIB it has ditched the sole instance decision-making body of other organisms and transformed it into a dual chamber organism in which regional economies hold a major participatory stake under Chinese lead. Nonetheless, the experience of the IMF and the World Bank show that its feasibility and effectiveness will be measured in how it copes with crises and the demands of change that emerge from its constituents although it is still too early to tell.

Even so the features of these changes could be the suggested by this years' events with being the first one the overall de-acceleration of China's economy could be a challenge to the efficacy of the Bank's of the decisions. This includes the possibility of the bank extending membership to other American and African states, fostering policies which might be based on coveted Asian economic measures to fulfill the criteria of exclusivity of practices and how it will cope with traumas like Brexit and the uncertainty of a roll-back of US commitments in the international arena. These changes are happening at an unprecedented speed and are born out of a general protest against the current economic consensus making the context in which the bank was conceived far more defiant for multilateral organizations.

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