China’s New World Order

SEOUl – China – already the world’s largest exporter, manufacturer, and international-reserve-asset holder – is poised to overtake the United States as the world’s largest economy (measured according to purchasing power parity) this year. Now, it is using its growing clout to reshape global economic governance. Indeed, the country’s days of following Deng Xiaoping’s injunction to “hide brightness and cherish obscurity” are long gone.

After decades of actively participating in international economic institutions – including the G-20, the International Monetary Fund, the World Bank, and the World Trade Organization – China has begun to resemble a revisionist power seeking to create a new world order. Last month, China and 20 other Asian countries signed a memorandum of understanding to establish a new multilateral development bank, the Asian Infrastructure Investment Bank. Viewed as the first serious institutional challenge to the World Bank and the Asian Development Bank (ADB), the AIIB was proposed by China.

In a sense, this shift should not be surprising, given the widespread debate over the inherent weaknesses of existing international institutions and governance structures – in particular, China’s disproportionately small role in them. China accounts for a 3.8% voting share of the IMF and a 5.5% share of the ADB, compared to 16.8% and 12.8%, respectively, for the United States and 6.2% and 12.8% for Japan.
Moreover, the advanced economies have staked their claim to leadership in these institutions. Europeans have led the IMF and Americans have controlled the World Bank since their establishment after World War II. Likewise, the ADB has had Japanese presidents since its founding in 1966.

Meanwhile, emerging economies like China face significant barriers to boosting their capital contributions to – and their status in – these institutions. And reforms, though widely discussed, have faced long delays. For example, IMF quota and governance reform, on which G-20 leaders agreed in 2010, has yet to be implemented.

Frustrated, China finally decided to push for the establishment of the AIIB, in which it will be the largest shareholder, with a stake of up to 50%. China will also provide the AIIB’s first president, and the bank’s headquarters will be in Beijing.

China can leverage its considerable influence over the AIIB to bolster its international image, particularly by strengthening its relationships with developing countries. Many developing Asian countries, for example, have significant unmet need for infrastructure investment to buttress their long-term economic growth.

The AIIB can not only channel more resources toward developing countries; it can do so in a way that is better suited to their needs, with fewer bureaucratic barriers and more flexibility than its more established counterparts. The AIIB would complement China’s rapidly increasing bilateral development financing, with the added benefit of a multilateral structure that ensures better governance and higher operating standards.

What the AIIB may not be able to do is contribute to improved economic governance in Asia – not least because Japan, Australia, Indonesia, and South Korea, whose total GDP is roughly equal to China’s, are not yet members. Without these economies to counterweigh China’s influence or a resident board of directors, the AIIB could allow China to impose its will on members and beneficiaries alike.

For example, as former Indian Minister of State for External Affairs Shashi Tharoor has suggested, China may use the AIIB to help finance a new Silk Road, an overland and maritime route connecting East Asia with Europe. While the project could have significant regional benefits, stimulating economic development by promoting integration and connectivity, it would serve primarily China’s interests, expanding the country’s international influence and reducing the gap between its eastern and western regions. At
the same time, it could exacerbate geopolitical tensions and territorial disputes between China and its neighbors.

More generally, some development experts have raised concerns about whether the AIIB can operate according to international standards of governance and transparency, enforce safeguards, refuse to work with incompetent or corrupt governments, and follow effective procedures. They also worry that, by fragmenting international development finance, the AIIB could weaken its impact considerably.

To be sure, China has made an effort to address such concerns, emphasizing repeatedly that the AIIB aims to complement, not compete with, other institutions. Following the AIIB’s launch, Chinese President Xi Jinping declared that it “needs to follow multilateral rules and procedures” and should learn from “existing multilateral development institutions in their good practices and useful experience.”

But China must support such statements with an active commitment to fair and efficient governance. Specifically, it should consider lowering its own voting share, instituting a rotating presidency, and broadening membership to include advanced Asian economies.

The AIIB is a welcome initiative. But, given deep mistrust and a multitude of conflicts involving China, its regional neighbors, and the United States over security, environmental, and human-rights issues, its success is far from guaranteed. It is up to China to make the necessary compromises to enable the AIIB to reach its potential.

China’s approach to influencing global governance is only beginning to emerge. One hopes that it starts off on the right foot.