Who's Afraid of the AIIB

Why the United States Should Support China's Asian Infrastructure Investment Bank

By Phillip Y. Lipscy
generated considerable anxiety in Washington and many other capitals. Many pundits and policymakers view the AIIB as a bid to undermine or replace the international architecture designed by the United States and its allies since the end of World War II. Although several U.S. allies, including Australia, Germany, and the United Kingdom, have declared their intention to join the AIIB, others, including Japan, have expressed ambivalence. For its part, the United States has made it clear that it will seek to influence the institution from the outside. But it would be a mistake to shun or undermine the AIIB. Rather, it should be welcomed. Both the United States and Japan have far more to gain by joining the AIIB and shaping its future than remaining on the sidelines.

The details remain vague, but the AIIB is meant to be a multilateral development institution that will focus on infrastructure needs in Asia. There is no question that this is a deserving cause. Asia’s large population, rapid growth, and integration with the global economy all generate demand for better infrastructure. A report by the Asian Development Bank (ADB) estimates the region needs about $750 billion annually in infrastructure-related financing. Citing historical underinvestment, McKinsey & Company, a global management consulting firm based in New York City, proclaims a “$1 trillion infrastructure opportunity” in Asia. Although precise estimates vary from one report to another, the broad point is uncontroversial: Asia needs more infrastructure, and international financing can help.
Why, then, is the AIIB itself controversial? There are essentially two reasons. First, Western governments fear that the AIIB will, in one way or another, undermine existing international aid institutions. U.S. policymakers have publicly expressed concern that the AIIB will undercut social and environmental standards adopted by existing institutions such as the World Bank and International Monetary Fund (IMF). An underlying fear is that the AIIB could eventually overshadow and undermine these institutions, which are based in Washington and seen as closely reflecting U.S. interests. Japanese policymakers have expressed similar reservations.

Second, there is concern about China’s intentions within the broader context of its economic and geopolitical rise. The AIIB signals that China intends to play a larger international role. Will China act like a responsible stakeholder by further integrating itself into the existing world order, or will it focus more on challenging U.S. hegemony by seeking to undermine
and replace the post–World War II international architecture? The AIIB seems to indicate that China is interested in the second scenario. After all, why else would China choose to design its own development institution from scratch rather than working through existing institutions?

Yet both sets of concerns are largely misplaced. The AIIB is highly unlikely to undermine existing aid organizations, and the creation of the AIIB conveys very little information about China’s broader international intentions. On balance, the United States and Japan have more to gain from joining the AIIB and shaping its future than seeking to exert influence as bystanders.

INSTITUTION IN-CROWD

China has a unique relationship with post–World War II international organizations. After the Chinese civil war, Chiang Kai-shek’s Taiwan remained the de jure representative of all of China in major international organizations. This was a serious fault line of the early Cold War, triggering the Soviet boycott of the UN Security Council in 1950. However, the United States used the boycott to its advantage, securing UN Security Council authorization for operations against North Korea during the Korean War. The Soviet Union grudgingly returned to the council to aggressively exercise its veto, but the question of Chinese representation remained unresolved.

China exacerbated its international isolation by withdrawing from several international organizations, such as the Universal Postal Union and the World Meteorological Organization, in protest of Taiwan’s membership. As a result, by the 1960s, China had essentially no representation in the postwar institutional
architecture. There were a few occasions on which China endorsed proposals that would pose competition with existing institutions. For example, the premier of China, Zhou Enlai, encouraged Indonesia under President Sukarno to challenge the architecture: “In these circumstances,” he said, “another UN, a revolutionary one, may well be set up so that rival dramas may be staged in competition with that body which calls itself the UN but which is under the manipulation of United States imperialism and therefore can only make mischief and do nothing good.”

China sent the largest delegation and won the most medals at Sukarno’s “Games of the New Emerging Forces,” an athletic competition created to pose direct competition against the Olympics, from which China was excluded. Indonesia also became the only country in the UN’s history to formally withdraw from the organization in 1965, and Sukarno proposed the creation of an alternative institution, the New Emerging Forces Organization (NEFO). The proposal raised concerns among U.S. policymakers, who worried that the initiative might entice developing countries away from the UN. NEFO ultimately went nowhere, though, as Sukarno’s grip over his own country slipped. Indonesia returned to the UN only a year later.

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If China’s isolation from the international architecture had continued in subsequent decades, such challenges may have become more serious. However, in a pivotal UN General Assembly vote in 1971, China displaced Taiwan as the sole representative of its country in the UN. Although membership in other organizations came with varying lags, within about a decade, China had completely turned the tables on Taiwan.

China’s history of contestation over representation sets the scene for contemporary debates about the international architecture. For decades after the end of World War II, a major Chinese foreign policy objective was to secure recognition and status in postwar international organizations. Once that status was secured, China’s unique method of entry gave it significant advantages that were denied to many other rising powers. The postwar architecture systematically advantaged the major Allied powers of World War II over countries on the wrong side of the war (Japan and Germany) or countries that were weak or colonized (Brazil and India). In many respects, China avoided these disadvantages: it automatically assumed the formal privileges that had been granted to the Republic of China, most notably permanent membership and veto power in the UN Security Council.

These factors mean that when it comes to major international institutions, China is more of a status quo power than one might expect. Much of the contemporary Chinese foreign policy
narrative emphasizes China’s contributions to the Allied victory in World War II against fascism and militarism. Undermining the architecture is not in China’s interest: it provides material benefits, enhances Chinese legitimacy, and is not obviously biased against China. For sure, Chinese underrepresentation is an important problem in several areas, such as in the voting rights of the IMF and the representation of Chinese nationals among the personnel of major organizations. However, for the most part, China has more to gain from incremental adjustments of the architecture than from a wholesale redesign.
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HOW AID WORKS

The AIIB does not alter this basic picture. It is useful to consider some features of contemporary development aid. Development aid is a highly competitive and fragmented policy area. There are at least 28 multilateral international organizations that already specialize in international development akin to the AIIB. In addition, most major economies also engage in bilateral aid through their own aid agencies. These include 29 members of the Development Cooperation Directorate of the Organization for Economic Cooperation and Development and a host of developing countries, including China. To top it off, numerous private foundations and firms participate in development directly or indirectly. On a yearly basis, the ADB and Inter-American Development Bank each disburse the equivalent of about 40 percent of the World Bank’s disbursements. Yearly U.S. bilateral aid is typically on a par with World Bank disbursements.

Aid organizations often work collaboratively, pooling expertise and resources to implement projects. However, competition is also an important feature of contemporary development aid. Donors have numerous channels through which they can give out aid; likewise, potential recipients can receive aid from a wide range of sources. This is particularly true for the rapidly developing countries of Asia, which the AIIB will target.

The competition imposes accountability and places important limits on international aid organizations. A good example is the United Nations Development Program. The UNDP is considered one of the premier international development organizations. It was established in 1966 as a major agency of the United Nations,
and it has near-universal membership. However, the agency was created with a decision-making structure that limits the influence of important donor states: following the broader UN principle that each member state should have equal representation, the organization follows a one-country-one-vote rule. Hence, the United States, one of the largest donors to the organization, has the same voting power as Nepal, a major aid recipient.

This means that large donor states feel their interests are not sufficiently reflected in UNDP decision-making. As a consequence, they have effectively shifted their attention elsewhere, depriving the UNDP of resources and forcing the organization to pursue “noncore” arrangements over which it has limited control. The UNDP has faced a chronic shortage of funding: adjusted for inflation, core disbursements by the UNDP peaked in 1981 and have steadily declined to about half those levels.

This type of competition has two implications for the AIIB. First, to remain relevant, aid organizations must be accountable to their stakeholders. If the AIIB is seen as being overly dominated by China, other members will turn their attention elsewhere, depriving the organization of resources, attention, and skilled staff. There is no plausible scenario under which the AIIB could supplant existing organizations such as the World Bank and ADB unless the organization suitably reflects the concerns and interests of the broader international community.

Second, maintaining governance and accountability standards in development aid is already extremely difficult, particularly when dealing with relatively successful developing countries that can
pick and choose from a wide range of multilateral, bilateral, and private financing sources. For this reason, the entry of the AIIB as an additional funding source in Asia is unlikely to make a significant difference in social and environmental standards. If China truly seeks to undercut the quality and conditions of existing aid agencies, it can already do so more expediently through bilateral aid and overseas activities of its state-owned enterprises.

INSTITUTIONAL POWER

Many pundits and policymakers see the AIIB in zero-sum terms: if China is successful, the United States and its allies lose. A recent article in the conservative Japanese Sankei newspaper is illustrative, arguing that the AIIB represents China’s attempt to follow Sun-tzu’s teachings to subdue the United States and Japan without engaging in direct combat. But there is a fundamental problem with this worldview: international institutions are not like military equipment or strategic territory, which makes a country more powerful and potentially threatening.

Multilateral international institutions are fundamentally cooperative arrangements, premised on mutual benefits. On net, the activities of the AIIB are much more likely to bring benefits rather than costs to the United States as well as the broader international community. The most obvious of these is the positive spillover of economic development. China itself is testament to the importance of infrastructure investment for growth. Better infrastructure in Asia will mean more economic activity and business opportunities not only for Chinese firms but also for American, European, and Japanese firms. For sure,
some infrastructure can be designed to bring disproportionate benefits to specific countries: for example, roads and pipelines that direct traffic toward China. However, in an age of interconnected markets and global supply chains, it is practically impossible to limit positive spillover effects to a single country.

Multilateralism will also make it more difficult for China to overtly manipulate projects funded by the AIIB. An important reason the United States established multilateral institutions after the end of World War II was to reassure its allies that their voices would be heard and that the United States would not seek unilateral domination. Multilateralism not only enhances but also constrains the ability of powerful states to get what they want. For all the shortcomings of U.S. foreign policymaking since the end of World War II, its emphasis on multilateralism has been a resounding success.

Take trade. Before the 1930s, U.S. trade policy oscillated between openness and closure depending on which political party controlled Congress. The contemporary trade architecture, initially based on the General Agreement on Tariffs and Trade and more recently the World Trade Organization and a host of regional arrangements, prevents such dramatic swings. It also surely benefits U.S. economic interests by maintaining the free flow of international commerce.

The same logic applies to the AIIB. The AIIB will likely give China some important advantages akin to what the United States and Japan enjoy, respectively, in the World Bank and ADB. However, China will also be constrained by other members of the institution. The structural advantages that China enjoys in the AIIB will be beneficial only insofar as other members take
the institution seriously and provide funding, skilled staff, and coordination. If the institution is perceived as being unfair or nontransparent, it will become nothing more than a shell organization through which China disburses bilateral foreign aid.

To put it differently, China has a basic choice. It can create an AIIB that is mutually beneficial, reflects the broader concerns of its members, and perhaps modestly overrepresents Chinese interests. If, instead, China seeks to dominate the AIIB, the institution will shrivel into irrelevance. In the former case, U.S. membership in the AIIB will provide an opportunity to influence and shape the trajectory of an institution that will make a meaningful contribution to economic development in Asia. In the latter case, there is no meaningful threat to U.S. interests anyway.

COOPERATIVE CONFLICT

Realist international relations scholars have predicted that China and the United States face inevitable conflict based on the idea that power transitions create turbulence as rising powers seek to assert their newfound authority and status quo powers resist. An optimistic alternative,
based on the liberal tradition, predicts a more benign outcome, in which the pacifying effects of economic interdependence, international institutions and norms, and, perhaps one day, democracy will push Beijing and Washington toward cooperation rather than conflict.

Between these two extremes is a third possibility that ought to be taken more seriously: the renegotiation of the world order. To some degree, contestation over international institutions replicates the functions performed by military clashes in prior eras. It shapes geopolitical and economic outcomes, provides markers for relative status among states, and integrates states into groupings that share common values and purposes.

Japan’s emergence in the late twentieth century is illustrative. Scholarly work in the early 1990s predicted confrontation between Japan and the United States as the former emerged as a major economic power. The political scientist Kenneth Waltz, for example, forecasted that Japan would increase its military capabilities and perhaps acquire nuclear weapons as it reemerged as a great power and reasserted its authority. Others worried that tensions between the United States and Japan could intensify as the latter sought to reestablish its predominant position in the East Asian region.

For the most part, Japan instead maintained close ties with the United States and focused its diplomatic attention on international institutions as venues for promoting its newfound status and policy prescriptions for the international order. A crucial battleground for competing Japanese and American
visions has been international economic institutions. In the World Bank and IMF, Japan sought to achieve greater voting rights and recognition for its economic approach, which has emphasized greater state intervention and a focus on basic infrastructure. Japan also sought to create regional institutions through which it could exercise influence, such as the ADB and the failed Asian Monetary Fund.

Of course, China differs from Japan in many respects, but its proposal for the AIIB is best seen in this light. The AIIB would give China somewhat greater material and ideological influence over multilateral development lending than it currently enjoys. Perhaps equally important, the AIIB can be interpreted as a marker of status and prestige. One could argue that a multilateral development bank is one of the bells and whistles that comes with contemporary great power status: the United States has the World Bank, Japan has the ADB, and the EU has the European Bank for Reconstruction and Development. China will have the AIIB.

The upshot is that the influence and prestige of contemporary international institutions give countries a new avenue through which to gently contest the contours of the world order. There is less of a need to resort to coercion or military conflict. The heart of the matter is this: Does the United States prefer a world in which China seeks to establish its influence and international prestige by building multilateral development banks or one in which it seeks to do so by building aircraft carriers? Pushing back against the former sends the troubling message that the United States is concerned about not just the means but the ends of China’s rise. The AIIB provides an opportunity to
acknowledge and applaud China’s emergence as a builder of multilateral institutions and a contributor to global public goods. The institution may very well give China more influence over development in Asia, but it will be a more transparent and accountable way of exerting influence than through bilateral economic or military pressure. The AIIB may or may not ultimately succeed, but it poses very little risk to U.S. and Japanese interests, since it enters a crowded, competitive field of multilateral development agencies. The United States thus has every incentive to encourage, not discourage, Chinese foreign policy initiatives such as the AIIB.

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