

A New World Bank?

By Jean De Ruyt

The “Asian Infrastructure Investment Bank” (AIIB) was launched by China in 2013. It only became headlined in the world press this month when the United States publicly criticized Britain for announcing its participation.

Indeed, soon after Chancellor of the Exchequer, George Osborne, stated that the UK would be among the “founding members” of AIIB, the FT published a comment from a “US Government official: *“We are wary about a trend toward constant accommodation of China, which is not the best way to engage a rising power...”*”

The message was two-fold: the British move had not been agreed with the US--a blow to the special relationship--and it would undercut the Bretton Woods Institutions, the IMF, the World bank and the Asia Development bank, the jewels of the “pax Americana,” the world has enjoyed since the end of world war two.

The problem is that the Bretton Woods institutions were not capable of adapting in order to maintain their “exclusiveness” at a time when China is becoming the first economic power in the world. China is trailed only by India and other Asian tigers in terms of GDP growth.

A major effort has been made since the beginning of the 21th Century to adapt the IMF and the World Bank to changing world realities. An albeit modest reform package linked to a revision of IMF quotas had been approved by the Obama administration and agreed in the G 20 in 2010, but it has remained stuck in the US Congress. An attempt to have it ratified by linking it to a Ukraine aid package failed in March 2014.

The AIIB is not the first challenge to the Washington institutions launched by the new emerging powers--the so-called BRICS countries--Brazil, Russia, India, China and South Africa. In a summit in Fortaleza in July 2014, they decided to create a “New Development Bank” (NDB) with each of them pledging \$10 Billion as a capital base for infrastructure and sustainable development projects.

The Chinese initiative followed a few months later and immediately took center stage. Launched with a registered capital of \$50 billion, it was opened to the participation of India and other countries. Twenty one Asian and Middle East countries participated in a MoU signed in Beijing in October 2014.

It was later opened to non-Asian members--for a maximum of 25% of the shares. The British move in early March was followed days later by the remaining European members of the G 7, France, Germany and Italy. Other EU members followed with the blessing of the European Commission and the External Action Service which noted that *“infrastructure investment is much needed in the fast growing Asia- Pacific region and Europe can help build this infrastructure.”*

This leaves Australia, South Korea and Japan with little pretext to snub the new Asian Bank. Their participation is expected before the end of the month, the deadline to be a founding member.

Will the new bank “*incorporate the high standards of the World Bank related to Governance? Will it protect worker’s rights? The environment? Will it fight corruption?*” asked Treasury Secretary Jack Lew in a face saving statement when it became clear that US allies would join the new bank *en masse*.

The “founding members” will now need to weigh the articles of the treaty establishing the AIIB which should be adopted by the end of June. Angel Gurría the head of OECD noted during a recent visit to Beijing that participation by European countries helped to convince him that the institution will be “*managed in a professional and transparent way.*”

Christine Lagarde, who was also in Beijing a few days ago stated that the IMF “*would be delighted to cooperate*” with AIIB and that there was “*massive room for IMF’s cooperation with the new bank in infrastructure financing.*”

What will certainly help the AIIB is that there is a strong need for infrastructure development in Asia which cannot be covered with the current resources of the IMF. And nobody could disagree that new large flows of capital to developing countries would be good for the world economy.

President Obama’s “pivot to Asia” was an attempt to catch up with Asia’s spectacular development in the last decade while keeping the US in the leading role. From that point of view, March 2015 is a failure for the US. A new era in world geopolitics is at hand. The lesson from these recent events must be learned in Washington--notably by those who thought they could stick to the old Bretton Woods model, at all cost.

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