



## The Asian Infrastructure Investment Bank (AIIB): China's new multilateralism and the erosion of the West

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China will launch a new development bank for Asia later this year, called the AIIB. 58 countries worldwide have already applied to become founding members, including numerous Western nations. This policy brief argues that the AIIB constitutes an important international development, as it reflects a new geopolitical reality and marks a new turn in China's practice of multilateralism. It also looks critically at the European uncoordinated response to the AIIB, and what it tells about Europe's shrinking role in the world.

A new multilateral institution 'for the twenty-first century'. This is how the Asian Infrastructure Investment Bank (AIIB) presents itself on its website. It certainly seems that way. This is a new Asian multilateral organization in the 'Asian century', initiated by the main rising power, China, but attracting most major powers worldwide, including European ones. At the same time, it is an initiative that is strongly resisted by the United States. As such, the AIIB is more likely to be an evolution than a revolution in global governance, but it reflects first and foremost a new geopolitical reality.

### A NEW BANK, BUT WHAT FOR?

China announced its intention to create a new regional development bank in October 2013. Following a number of informal meetings and negotiations, a memorandum of understanding was signed by 21 countries one year later. Since then, more countries have applied to join the AIIB. On 31 March 2015 – the deadline for becoming a 'founding member' – 58 countries had filed an application.

By signing the memorandum of understanding, prospective members agreed on a set of core principles, notably with regard to the AIIB's authorized capital of \$100 billion, with an initial subscribed capital of \$50 billion. They also agreed that GDP would be used as basic parameter to determine voting shares among members. Beijing was selected to host the headquarters, and an interim secretariat was designated. According to Chinese officials, the AIIB should become fully operational before the end of the year.

Why did China set up the AIIB? Firstly, because it is needed. Asian countries badly need to develop their infrastructures – and China has plenty of cash to invest. According to one study of the Asian Development Bank (ADB), the region would need more than \$1

trillion annually over the next five years in order to meet its infrastructure requirements, only a fraction of which is currently available. The combined annual boost to Asia's infrastructure from the World Bank (WB) and the ADB amounts to \$20 billion. In this regard, the AIIB would complement existing resources, but it would still be very far from filling the gap. In fact, its confirmed capital amounts to just 60% of the ADB's capital.

Furthermore, the AIIB confirms and institutionalizes China's rising role as a 'new donor'. Over the past decade, and particularly since the economic crisis, Beijing has rapidly emerged as a significant donor and investor in various parts of the world. The vast majority of China's development aid to the region and beyond is still channelled bilaterally, similarly to established donors. Although this is unlikely to change, China is clearly willing to increase its share of multilateral aid. It already contributes to the ADB's and the WB's capitals. In addition, China pushed recently for the launch of the BRICS Development Bank, which also has a capital of \$100 billion. In

each case, however, China appeared willing to invest more, but was limited by members' reluctance to increase the institution's capital or China's share in it. The AIIB thus appears to be yet another vehicle for channelling Chinese money.

Of course, China's aid is not disinterested. In fact, according to Beijing, aid must always be 'mutually beneficial'. This can take the form of contracts for Chinese (state-owned) companies. Investments can also serve broader interests. It's certainly true that China hopes that its money will buy influence. It is often said that China has no friends internationally, as illustrated by tensions with most of its neighbours. China has managed to antagonize many countries, but, on the other hand, it has also pursued very active diplomacy worldwide, with a view to broadening and deepening its global clout. In this regard, China's booming economy is a clear asset. Through its development and investment policies, China hopes to deepen its influence in its neighbourhood and beyond.

**LIST OF APPLICANTS TO BECOME 'FOUNDING MEMBERS' OF THE AIIB**  
(AS OF 31 MARCH 2015)

**ASIA-PACIFIC**

Australia, Bangladesh, Brunei, Cambodia, China, Hong Kong, India, Indonesia, Kazakhstan, Kyrgyzstan, Laos, Malaysia, the Maldives, Mongolia, Myanmar, Nepal, New Zealand, Pakistan, the Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Tajikistan, Thailand, Uzbekistan, Vietnam.

**MIDDLE EAST AND NORTH AFRICA**

Egypt, Iran, Israel, Jordan, Kuwait, Oman, Qatar, Saudi Arabia, Turkey, United Arab Emirates.

**EUROPE**

Austria, Azerbaijan, Denmark, Finland, France, Georgia, Germany, Hungary, Iceland, Italy, Luxemburg, the Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, United Kingdom.

**AMERICAS**

Brazil.

Finally, China's new initiative cannot be dissociated from its dissatisfaction with its place in the existing multilateral system. Although China has now become the second largest economy in the world behind the United States, it remains largely underrepresented in the WB and the ADB, which are dominated by the United States and Japan respectively. In fact, the United States – and specifically the US Congress – has systematically resisted any significant reform of the WB and IMF structures. As a result, emerging powers such as China have increasingly questioned the legitimacy of these institutions, which in their eyes reflect a now-vanished era dominated by the West. This has certainly encouraged them to consider alternative forms of multilateralism.

### **A MULTILATERAL TURN?**

China is rarely described as a multilateralist power. Although it has joined most international organizations at the global and regional levels, China has been accused alternately of unfair practices (in the World Trade Organization or WTO, for instance), of blocking decisions (e.g., in the UN Security Council) or, more broadly, of practicing multilateralism *à la carte* by shifting selectively from bilateralism to multilateralism. China's leading role in setting up the AIIB challenges this view to some extent.

In all fairness, most nations worldwide practice multilateralism in a selective or flexible manner. Yet few would contest the idea that China's authorities are less multilaterally minded than European governments. This is partly for historical reasons. Indeed, Europe opted for a multilateral approach to conflict resolution after World War II (WWII), with a number of organizations such as the European Communities, NATO or the Organization for Security and Co-operation in Europe (OSCE). This led to a long period of stability and prosperity on the continent, which is now

being challenged somewhat. In contrast, Asia's post-WWII security was largely based on bilateral deals, notably with the United States – the 'hub and spokes' system. A number of multilateral forums have been established over the past few decades to channel and mediate conflicts, but China remains largely at the periphery of this architecture. Asia is still a volatile continent where competition largely prevails over co-operation.

Another equally important explanation for China's view of multilateralism is a systemic one. The pillars of today's multilateral order were built in the aftermath of WWII. They reflect an outdated balance of power, where China still has less voting power than the Benelux countries. At the same time, they also reflect Western norms and values, although this has generally benefited China by creating an environment conducive to its emergence. This largely explains why China has ambivalent feelings about the 'liberal order'. As China was rising, it increasingly resisted some aspects of this liberal order that it perceived to be incompatible with Chinese norms and principles, resulting in demands for institutional reforms. The WB and the IMF were in China's sights for a long time. Remarkably, however, these demands did not challenge the multilateral order.

The AIIB could indicate a turning point in China's approach to multilateralism. In recent years, China has started experimenting with alternative forms of multilateralism. In 2001, it launched a regional organization called the Shanghai Cooperation Organisation (SCO) with Russia and Central Asian states, sometimes presented as China's counterweight to NATO. In 2009, Beijing joined the BRIC forum with Russia, India and Brazil – South Africa joined later – the main purpose of which is to promote a more multipolar and less Western-centric order. However, these organizations have delivered very little so far,

and doubts persist with regard to their ability to grow into something more ambitious. Reasons include: internal tensions, China's outright dominance, a largely reactive agenda and poor governance structures.

However, the AIIB does not resemble the SCO or BRICS. To begin with, it is more inclusive, as its membership is open to all countries – even Taiwan. Furthermore, it presents a more positive and constructive agenda for co-operation between donors and recipients, but also among donors. This makes the AIIB more promising and attractive. At the same time, this attractiveness could become a challenge to the 'liberal order', particularly if the AIIB turns out to be a preliminary to an alternative China-led multilateral order.

Until recently, China was largely perceived as a 'reformer' of the multilateral system. With the AIIB and other initiatives such as the new BRICS Development Bank launched last year, China increasingly appears as a 'soft revisionist'. It will continue to seek reform of existing multilateral structures, while setting up its own. Whereas a forum like BRICS has been essentially instrumental for pressuring established powers for multilateral reforms, the AIIB could be the first brick of a new Chinese-led multilateral architecture. The 'liberal order' is still a long way from being supplanted by any serious alternative, but rules of co-existence will have to be negotiated. In this regard, one should welcome Chinese statements claiming that the AIIB will cooperate with ADB, WB and IMF, all of which expressed a similar wish in return.

### **A GEOPOLITICAL TURN?**

China's success in luring 58 countries (and counting) to the AIIB is remarkable. There is in fact no precedent for this. China has been recognized as a major emerging power for almost two decades now, but, for most of this time, its rise triggered mostly angst, fear and

incomprehension worldwide. Beijing experimented with many strategies for dampening these fears – using rhetoric and cash – but its hard power continuously overshadowed its soft power. The AIIB could mark a turning point.

The AIIB is perhaps China's largest soft power success so far. To begin with, Beijing has shown that it is willing to take more leadership and responsibility in the region, in co-operation with regional and global players. This is weakening, at least temporarily, the accusations that China is an 'irresponsible stakeholder', although the new bank must obviously still demonstrate its effectiveness. Furthermore, the controversies surrounding the launch of the AIIB strengthened China's position on the need for a multilateral reform. China not only weakened the argument of those claiming that it disregards multilateralism, but it also shed light on the negative role played by established powers, and specifically the United States, in resisting China's legitimate demands for a greater role in the multilateral system. Above all, China has successfully divided the 'West', as American allies joined the AIIB one after the other. For once, it was the United States that found itself isolated globally, not China.

With the AIIB, China engineered three major divisions in the 'West'. First, most of the American allies in the Asia-Pacific such as Australia or South Korea accepted an invitation to join the new bank, despite American objections and lobbying efforts. This constitutes a major blow for Washington as it stages its much-advertised 'pivot to Asia'. The US response is expected to come in the form of the Trans-Pacific Partnership (TPP), a regional free trade project that excludes China. Yet it remains uncertain whether this deal will come through at all. This could be yet another blow to the US pivot, perhaps even a fatal one.

Second, the transatlantic partnership hasn't

resisted China's offensive either. The United Kingdom was the first European country to announce its willingness to join the AIIB. US officials complained that this happened with 'virtually no consultation', accusing London of 'constant accommodation of China'. So much for the 'special relationship' between the United States and the United Kingdom. On 31 March, 13 additional EU Member States announced their candidacy to the AIIB, including loyal transatlantic partners such as Denmark and the Netherlands, again despite insistent US pressures.

Third, the EU itself reacted in a divided manner to China's proposal. Only a few days after the British government announced its decision, France, Germany and Italy expressed their intention to join the AIIB as founding members. Austria, Denmark, Finland, Hungary, Luxemburg, the Netherlands, Poland, Portugal, Spain and Sweden also joined later. With only 14 EU Member States responding to China's offer, in an apparent rush, it seems that there was no coordination on this important issue, proving once again to China how easily Europeans can be divided.

The AIIB could be a Chinese success story in the long run, as the country shifts from hard to soft power, and from a negative narrative to a positive one. It is not only a result of China's rising power, but also of China's growing *influence* worldwide. China has shown a new ability to attract followers and to divide its opponents – even largely discrediting its main opponent, the United States. This could mark a major turning point in global power politics. But it will take China more than a new bank to undo decades of co-operation and partnership among Western nations.

### **THE EU vs. THE AIIB**

The EU was divided in its response to the AIIB. Although 14 EU countries joined the AIIB as founding members, the position of the 14 other Member States and of the EU itself is

still unclear. Will they join later, and under what conditions? Or will they remain aligned with the United States? Above all, what can the EU achieve vis-à-vis China and the AIIB? Obviously these questions cannot all be answered yet.

As a preamble, it should be noted that China's lobbying to get Europeans on board – and the US lobbying against it – suggest that Europe is still a relevant player in global power games. Of course, Europe is no longer the centre of gravity of the international system, and there are no more 'great powers' in Europe – mostly small and smaller ones. However, Europe is still courted by major powers, although perhaps less and less for its resources and expertise than for the sake of legitimacy.

In its weakness, Europe still has some power – but it must use what is left of it wisely. By joining the AIIB, EU Member States have offered significant legitimacy to the nascent institution, to the great pleasure of China's leadership. But what did they get in return? Evidently, some of these countries plan to reap economic benefits from their decision. At a more strategic level, European support for the AIIB could be seen as part of a broader strategy to 'multilateralize' China, as European governments have long encouraged China to play a greater role in the multilateral system. China is an indispensable member of the multilateral system as a rising great power. Ensuring its commitment to multilateral principles could be the best strategy for a smooth power transition. Ironically, European overrepresentation in the multilateral system is the main cause of China's underrepresentation and discontent with it. European membership of the AIIB is thus 'cheap' support for a multilateral China, dodging the issue of a broader multilateral reform.

Some officials from EU Member States claim that their decision to join the AIIB was partly motivated by an ambition to shape and

influence the new institution from within. Indeed, there are numerous concerns and unknowns about the AIIB, notably with regard to its governance mechanisms, standards for projects (e.g., environmental) and complementarity with existing multilateral bodies. It is surely easier to influence it from the inside than from the outside, but, eventually, it is unclear whether Europeans can really influence China at all. Europe's uncoordinated response to the AIIB and China's ability to divide and rule suggest that it will be difficult.

Coordination will partly depend on the final list of EU Member States that join the AIIB. The fact that no EU country has taken an open stance against the AIIB could suggest that most are still considering an application, even at a later stage. They are probably weighing the costs and benefits of membership. The main cost is financial, as countries have to provide capital to the AIIB. For many countries, like Belgium, finding fresh capital is not easy in these dire financial times. Another cost relates to the relationship with the United States. Many small EU Member States do not want or simply cannot afford to confront the United States as openly as major Member States. In this case, a change in the US position could ease the decision for some governments. Among the benefits, there is surely a matter of prestige – but that applies mostly to the 'founding member' status, which ended on 31 March. A more tangible benefit relates to the possible contracts that European companies could obtain as a result of infrastructure projects launched by the AIIB. The problem with this, however, is that smaller EU Member States do not have many companies that can undertake such major projects, let alone compete with German, French or Chinese companies. If anything, companies from smaller countries could get some marginal benefits through subcontracts. In a less direct manner, some EU Member States could also benefit economically from better relations with

Beijing, as a result of their political support for the AIIB.

As EU countries assess their options vis-à-vis the AIIB, some may opt for a middle way. Considering that an AIIB membership is so costly, some could ask for 'observer status', which has not yet been put on the table. This would be a low-costs, low-benefits option, and yet sufficient to keep good relations with China. Some Member States could also try to pool resources and join as a constituency, although this would dilute their influence within the AIIB. It is also unclear whether China is willing to accept this. Alternatively, some Member States could also push for European Invest Bank (EIB) membership to become an indirect contribution to the AIIB, since all EU Member States are represented on the EIB's Board. But it is equally unclear how China would react to this.

## CONCLUSION

For the first time, China is showing leadership and persuasion in creating a new multilateral institution that could be globally acceptable. This is certainly an interesting development, and perhaps a sign of changing times. It could announce the end of our Western-centric order. This will take time, however. To begin with, the AIIB must first get to work and prove its effectiveness on the ground. Funding infrastructure development in Asia is a fine but highly complex task.

Furthermore, the power transition will inevitably be resisted and challenged, mostly by the United States. It is too soon to tell whether China's multilateral turn is real or not, and whether this could lead to an alternative multilateral order. After all, it took several decades to set up the current multilateral system, and it is still not exempt from criticism. In fact, continuity rather than rupture is likely for the foreseeable future. China's leadership is surely smart enough to understand that the current 'liberal order' has its own value,

whereas Western governments should perhaps recognize more openly the status quo's limits and pitfalls. If China received more power in the WB and ADB, for instance, it could become more actively involved and, as a result, become the main advocate for deep co-operation with the AIIB.

Perhaps Europeans could lead the way in reforming the 'liberal order', not to 'accommodate' China but rather to safeguard and restore the legitimacy of the multilateral system. Indeed, as Europe seeks to protect itself from further marginalization in the international

system, it has essentially two options: promote multilateral norms and practices, or act collectively, mainly through the EU. Unfortunately, the AIIB story suggests that Europeans still hold their privileges dear in established multilateral institutions, while also letting themselves be easily divided.

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