

# EVENTS CALENDAR

Mershon Speaker Series

## DANIEL CHOW



### *Why China Established the Asia Infrastructure Investment Bank*

Thursday, March 24, 2016, 12:30PM - 2:00PM

Mershon Center for International Security Studies  
1501 Neil Avenue, Room 120 Columbus, Ohio 43201

[View a recording of this event here](#)

[Register here for this event](#)

Daniel C.K. Chow is the Frank E. and Virginia H. Bazler Chair in Business Law at the Ohio State University College of Law. He teaches and writes in the areas of international trade law, international business transactions, international intellectual property, and the law of China. He has published numerous books and articles in these areas. He received his B.A. and J.D. from Yale University.



Daniel Chow  
Frank E. and Virginia H.  
Bazler Chair in Business  
Law  
Ohio State University Moritz  
College of Law

#### ABSTRACT

On January 16, 2016, China officially opened the Asia Infrastructure Investment Bank (AIIB) for business, representing what might be a seismic shift in economic power from the United States to China and the culmination of what had been a diplomatic disaster for the United States. The AIIB creates a challenge to the U.S. dominated World Bank and International Monetary Fund (IMF), two venerable international financial institutions created at the end of the Second World War.

The World Bank lends money to developing countries to promote infrastructure and economic development, but these loans come with conditions called the Washington Consensus. The United States uses the Washington Consensus to promote its policies throughout the developing world. These policies are designed to promote the use of private markets, protect the environment, protect human and workers' rights, and foster non-corruption in government, among other values. While the United States dominates both the World Bank and IMF, the United States also limits China to a minor role in these institutions, even though China has the world's second largest economy.

Efforts to increase China's role in the IMF were blocked by the United States, which has also excluded China from the negotiations for the Trans-Pacific Partnership, a vast free trade agreement covering most of Asia. Faced with this shoddy treatment by the United States, China created the AIIB as an alternative bank in which China will play a dominant role in international lending to developing countries.

The AIIB represents not only a rival to the World Bank and IMF but a challenge to the way the United States has conducted international trade for the past seventy years. Unlike the United States, which imposes a set of western style policies as a condition for receiving loans from the World Bank, China believes in a doctrine of non-interference with the internal affairs of other countries. China's doctrine of non-interference is a direct challenge to the United States' doctrine of conditionality.

China's stance led the United States to argue that the AIIB would place few restrictions on its loans and would not tie its loans to responsible policies concerning the environment, workers' rights, and corruption. Not only did the United States refuse to join the AIIB, the United States also attempted to dissuade its closest allies from joining. Despite U.S. entreaties, all of the United States' closest allies (except Japan) joined the AIIB, even Britain, causing a political embarrassment for the United States.

The battle over the AIIB represents a challenge by China to the leading role of the United States in writing the rules for international trade. Loans by the AIIB will likely have fewer conditions and will promote the policies of the Chinese Communist Party. While the United States has been the underwriter of the world financial system for at least the past seven decades, the rise of the AIIB, could be the first

indication that China will succeed in its quest to displace the United States as the final arbiter of the rules of international trade in the twenty first century.