



# Asia Pacific Bulletin

EastWestCenter.org/APB

Number 397 | September 20, 2017

## The United States Should Join the Asian Infrastructure Investment Bank

BY NIRUBAN BALACHANDRAN

The United States has not yet joined Beijing's Asian Infrastructure Investment Bank (AIIB) as a member state, partially because of the perceived risk of legitimizing or normalizing this new multilateral development bank (MDB) at the expense of the Bretton Woods component of the postwar liberal international order: the World Bank and International Monetary Fund. A related US hesitation is the potential for Beijing to mainstream weaker, watered-down infrastructure quality standards across the East Asia and Pacific region. US policy toward the AIIB also ostensibly seeks to prevent Beijing from increasing its checkbook diplomacy in developing countries. This is understandable, given that Beijing has previously provided conditional aid with eyebrow-raising terms to developing countries, such as aid to Costa Rica and Panama under the condition that they cut off diplomatic relations with Taiwan. However, the AIIB is most likely here to stay, and as a result of Washington's absence, the United States will have no voice or voting presence in the bank. Such a position hinders Washington's ability to influence and shape Beijing's development effectiveness in the region.

Some Trump administration staff have expressed interest in US membership in the new bank. For example, Trump advisor James Woolsey wrote last November that the US should have joined AIIB, adding that he hoped its reception to Beijing's Belt and Road Initiative would be "much warmer". Even Japan, Washington's key ally in Asia, has recently hinted at joining AIIB. An absent US does not serve American or regional interests.

AIIB's mandate is to provide loans, grants, and technical assistance to build infrastructure such as roads, ports, housing, and bridges for developing countries. To date, AIIB comprises 57 founding member states, a number that will most likely rise to about 70 in the near future. The AIIB's initial capitalization is \$100 billion, with Beijing contributing half of this total. In contrast, the World Bank is governed by 189 member states, and its capitalization is over \$252 billion, with the United States contributing about 17% and Japan contributing about 8% of the total; it provides loans and grants in health, education, energy, climate change, and other sectors beyond infrastructure to client countries.

Unfortunately, the voice of the United States in the AIIB is absent. According to an exhaustive February 2017 Congressional Research Service report, "China's voting share at the AIIB (28%) is over 350% that of the second largest AIIB member nation, India (8%). This is the largest gap between the first and second largest shareholders at any of the MDBs..." In the same vein, while the United States is criticized by other governments for having "too much power" in the World Bank with a capital shareholding of roughly 17 percent, China's AIIB capital shareholding runs at an enormous 50 percent. Additionally, unlike most other MDBs, the AIIB does not have a resident board of executive directors that have a daily voice in bank processes and decisions.

If the Trump administration joins the AIIB, it can help negotiate a higher voting share for the United States, a higher capital shareholding proportion for the United States, and resident board membership for all member states within the new bank. Such outcomes would help alter Beijing's disproportionate power in AIIB. Although negotiating for more favorable conditions on behalf of Washington and other member states may be more difficult, it will by no means be impossible. While some in Beijing might view US membership in the AIIB as a strategic risk to China's long-term aspirations for a Sinocentric regional order, it's worth remembering that including Washington's voice in key infrastructure projects

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The *Asia Pacific Bulletin* (APB) series is produced by the East-West Center in Washington.

APB Series Editor: Dr. Satu Limaye  
APB Series Coordinator: Peter Valente

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can advance quality of life for the poor and unblock the free flow of water, goods, and people while drawing upon America’s most innovative infrastructure experts, unmatched global and subnational convening power, and enormous US diplomatic apparatus around the world.

It is understandable that aid and development projects managed by less-experienced donors like the AIIB might run greater risks of displacing indigenous peoples, threatening physical cultural-heritage assets, and constructing dangerous, disaster-prone, and less-than-green infrastructure. In addition, a report by a prominent watchdog group ranked the AIIB the lowest among the MDBs in level of public information transparency, most notably in terms of its lack of access to information procedures and public registry for information requests, as well as its failure to adopt time-bound disclosures of board minutes, draft strategies, and policies. The United States can drive capacity-building in these domains.

If Washington’s objective is to support Beijing’s efforts in development effectiveness and infrastructure quality, then it is imperative for the Trump administration to reverse course, seek to join the AIIB as a member state, and encourage resident board membership for all member states in line with MDB governance best practices. As in the World Bank and other multilateral institutions, it is on this platform that Washington can then negotiate on weighted AIIB voting practices, express its voice in day-to-day decision-making, convene like-minded stakeholders around policy and programmatic issues, build coalitions, and vote on projects that reduce poverty.

The AIIB is only one component of Beijing’s proposed “China-led” regional architecture, which includes the New Development (BRICS) Bank, BRI, the Regional Comprehensive Economic Partnership (RCEP) free trade agreement, the Shanghai Cooperation Organization, the China–ASEAN Interbank Association, the China–Eurasia Economic Cooperation Fund, and other multilateral initiatives. The Trump administration should therefore acknowledge that these new Chinese institutions will probably not be going away anytime soon, and that in many cases, it is best to try to advance American interests from within, or in close partnership with these institutions. For example, in May 2017, the World Bank and AIIB signed a joint Memorandum of Understanding (MOU) that establishes mechanisms for staff sharing, knowledge exchanges, country-level coordination, and other forms of close cooperation.

It is also worth noting that Tokyo’s \$200 billion, whole-of-government answer to Beijing’s AIIB and OBOR — the Japan Partnership for Quality Infrastructure (PIQ) — combines the multidisciplinary capacities of the Asian Development Bank (ADB), the Japan International Cooperation Agency (JICA), the Japan Bank of International Cooperation (JBIC), and the Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development (JOIN). As *The Straits Times* recently reported, “While Japan cannot compete with China in dollars, it has touted its superiority in its capability to build high-quality infrastructure and commitment to train local workers.”

In the same vein, Washington should also seek to further improve the AIIB’s quality-control, governance, accounting, and safeguards by first negotiating to join the new bank’s executive board, then ensuring not only that meticulous M&E practices are utilized, but also that strict environmental and social safeguards are enforced in the field to protect communities, indigenous peoples, and families across every full project cycle.

Lastly, at the bilateral infrastructure aid level, an impartial self-governing body similar to that of the World Bank’s Independent Evaluation Group (IEG) should execute an omnibus, cross-sectoral American infrastructure-aid review to refine the subnational service delivery, donor coordination functions, and development effectiveness of USAID, the Millennium Challenge Corporation, the US Overseas Private Investment Corporation (OPIC), the Asia Foundation, and other crucial bilateral instruments of American infrastructure aid to the East Asia and Pacific region. Comparatively efficacious project execution and whole-of-government initiatives such as US-ASEAN Connect will continue to provide powerful insurance against the long-term marginalization of Washington’s bilateral infrastructure-aid instruments.

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