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The show that demystifies economics

**China's New International Development
Bank: Chinese Or Global Interests?©**

by Pierre Vercueil

Hi there EnglishWaves listeners and welcome back to another edition of EconoMag. In October 2013 China took to the world podium and controversially proposed its own multilateral development bank (MDB), the Asian Infrastructure Investment Bank (the AIIB). The Bank started operations in December 2015 and aims to support the building of infrastructure in the Asia-Pacific region. What's particularly interesting about the AIIB isn't its 31-country membership list, but rather the fact that some of the world's primary economies, such as the United States and Japan, refused to join. Why are some countries unhappy about China's multilateral development bank?

Before we get into why, how does an MDB work? Let's take a look at the World Bank, a well-known example of a multilateral development bank. Think of it in very simple terms as a club of countries that all contribute to a "shared savings account". Each member country has the right to ask to borrow some of the money when they have a specific need. For instance, if Member Country A wants to build a bridge but can't afford it, money can be borrowed from the shared account if all the other member countries agree and vote yes. So far so good. Now here's where it gets more interesting: not all countries have the same voting rights, in other words certain member countries have more votes than others within the club. Which country has the most votes in the World Bank? You guessed it, the United States. Not only is the World Bank based in Washington D.C, but the United States contributes the largest portion to the shared account.

Having the most votes gives the United States enormous influence. If any member country wants to borrow money it will have to satisfy the criteria the United States sets. For example, to borrow money for that bridge, Country A might need to change some of its economic policies the US doesn't like – for the better or the worse. A country's policies can be targeted even if they have nothing to do with building the bridge! Therefore, a general grievance with the World Bank has been that it indirectly gives the

United States a lot of control over other countries.

So what's all the fuss about, why can't China develop its own development bank with other members? The dominant interpretation that has surfaced is that the Chinese-led AIIB serves as a direct challenge to the World Bank. In other words, a bank led by China means weakened US global influence over other countries. So far the AIIB has been very successful in attracting high profile members – it's even managed to produce a long European endorsement list including the United Kingdom that in the past has traditionally sided with the US.

The United States has criticized the AIIB by pointing out China's development aid track record in Africa together with questions surrounding the governance standards associated with a Chinese-led multilateral development bank. In other words, the US is saying that China can't be trusted as a responsible lender as it doesn't take countries' general policies into account – for example, in the past China has ignored human rights records when deciding to whom it will lend.

The advent of the AIIB highlights several interesting trends, especially waning American influence in the face of the global economic rise of China. But it remains to be seen how much influence the AIIB will grant China given the country's recent economic slowdown coupled with the spotlight placed on the Bank by the US. At the very least however, another multilateral development bank is certainly good news for the world's continued infrastructure gaps. Join us again next week for a brand new episode of EconoMag here on EnglishWaves.