EU Members Join Chinese-led Asian Infrastructure Investment Bank

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EuroPoint: The international media is fretting about EU states snubbing the US by joining the Chinese-led Asian Infrastructure Investment Bank. Yet this is not a zero-sum game. For the EU, membership in the AIIB is a win-win situation and will not affect the partnership with America. Better questions rest in the power arrangement/distribution of seats on the fund’s executive board, and the impact of the promised less bureaucratic funds disbursement process.

On December 10, 2014, a train pulled up at the Abroñigal Freight Train terminal in Madrid after completing the maiden voyage of “the longest rail link in the world.” The train’s 30 container cars travelled 8,111 miles from Yiwu, China carrying 1,400 tons of cargo – toys, stationary, and other items for sale over Christmas. It returned back with wine, jamón, and olive oil just in time for the Chinese New Year in February.

It takes three weeks for a container to arrive to Europe by train from China as opposed to six weeks by ship.

Five freight trains a week already link Chongqing with Duisburg, and Beijing and Hamburg along what Beijing calls the “New Silk Road” economic corridor. Such projects are part of a larger financial and infrastructure strategy developed by China.

AIIB

China’s rise as the world’s second largest economy has not been mirrored in the world of global financial governance. This is about to change as China is using a small part of its $3 trillion in currency reserves to set up the Asian Infrastructure Investment Bank (AIIB), an investment fund similar to the American-led IMF, World Bank, and the Japanese-led Asian Development Bank (ADB).

The Obama administration tried to dissuade its allies from joining the Chinese-led investment bank, questioning whether the new institution would abide by international standards of transparency, creditworthiness, and environmental sustainability.

It came as a surprise even to China when the U.K. and Luxembourg first announced they would join the AIIB. France, Germany, and Italy followed suit the next day. By the March 31 deadline, twelve EU member states were among the 40+ countries that applied for membership. Among them are traditional US allies such as Taiwan (!), Australia, Israel, South Korea, Norway, and Egypt. Even Russia and Brazil applied.
“German-American relations are excellent and aren’t at stake in the decision to join the AIIB” said Frank Paul Weber, spokesperson for Germany’s Ministry of Finance.

Membership in the AIIB would make it easier for EU firms to operate in China and Asia. EU member states would also benefit from expanded infrastructure investment in Asia.

China’s narrative is that the AIIB would be complimentary and not in competition with the IMF, World Bank, and ADB, since there are more than enough investment projects for all institutions to fund. Such projects include reliable electricity, access to clean water, sanitation facilities, and transportation. The World Bank estimates that Asia needs between $8 and $13 trillion in investments before 2020 in order to stay on its economic development path. In this context, AIIB’s prospective $50bn fund is a drop in the bucket.

The Devil is in the Details

In 2010, the Obama administration negotiated with leading world powers an agreement to reform the Washington-led IMF by changing the equity capital quota and hence shifting the voting shares. This would give middle-income countries like the BRICS more power on the fund’s executive board, and reduce the dominance of Western Europe. “Without these reforms, emerging economies may well look outside the IMF and the international economic system that we helped design, potentially undermining the fund’s ability to serve as a first responder for financial crises around the world,” said Nathan Sheets, US Treasury undersecretary for international affairs.

Republicans in Congress have for years stalled the efforts of the Obama administration to pass IMF reform. The latest bid by the Democrats to push funding tied to IMF reform through Congress failed in December 2014.

In the IMF, the U.S. has veto power.

China’s announcement that it would not retain veto power in the newly created AIIB might have been the decisive factor that convinced Western countries to apply.

Out of the 15 –20 seats on the board envisaged by China in the AIIB, only three would be filled by non-regional (non-Asian) member states. This leaves the twelve EU states fighting for those seats. EU countries would also compete over who would host the EU regional office for AIIB, with London, Luxembourg, and Frankfurt as early prospective favorites.

Soft Power Geopolitics

China insists it will not use the AIIB to extend its soft power in Asia. Yet both Washington and Moscow see China’s “railway diplomacy” as weakening their regional influence in Central Asia.

The U.S. has been negotiating separate free trade agreements with the EU (TTIP) and Asia, South America, and Australia (TPP). TPP excludes China. Meanwhile, the EU and China have been prospecting a separate free trade agreement.