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**Time US leadership woke up to new economic era**

April 5, 2015

This past month may be remembered as the moment the United States lost its role as the underwriter of the global economic system. True, there have been any number of periods of frustration for the US before, and times when American behaviour was hardly multilateralist, such as the 1971 Nixon shock, ending the convertibility of the dollar into gold. But I can think of no event since Bretton Woods comparable to the combination of China’s effort to establish a major new institution and the failure of the US to persuade dozens of its traditional allies, starting with Britain, to stay out of it.

This failure of strategy and tactics was a long time coming, and it should lead to a comprehensive review of the US approach to global economics. With China’s economic size rivalling America’s and emerging markets accounting for at least half of world output, the global economic architecture needs substantial adjustment. Political pressures from all sides in the US have rendered it increasingly dysfunctional.

Largely because of resistance from the right, the US stands alone in the world in failing to approve the International Monetary Fund governance reforms that Washington itself pushed for in 2009. By supplementing IMF resources, this change would have bolstered confidence in the global economy. More important, it would come closer to giving countries such as China and India a share of IMF votes commensurate with their new economic heft.

Meanwhile, pressures from the left have led to pervasive restrictions on infrastructure projects financed through existing development banks, which consequently have receded as funders, even as many developing countries now see infrastructure finance as their principle external funding need.

With US commitments unhonoured and US-backed policies blocking the kinds of finance other countries want to provide or receive through the existing institutions, the way was clear for China to establish the Asian Infrastructure Investment Bank. There is room for argument about the tactical approach that should have been taken once the initiative was put forward. But the larger question now is one of strategy. Here are three precepts that US leaders should keep in mind.

First, American leadership must have a bipartisan foundation at home, be free from gross hypocrisy and be restrained in the pursuit of self-interest. As long as one of our major parties is opposed to essentially all trade agreements, and the other is resistant to funding international organisations, the US will not be in a position to shape the global economic system.

Other countries are legitimately frustrated when US officials ask them to adjust their policies — then insist that American state regulators, independent agencies and far-reaching judicial actions are beyond their control. This is especially true when many foreign businesses assert that US actions raise real rule of law problems.

The legitimacy of US leadership depends on our resisting the temptation to abuse it in pursuit of parochial interest, even when that interest appears compelling. We cannot expect to maintain the dollar’s primary role in the international system if we are too aggressive about limiting its use in pursuit of particular security objectives.

Second, in global as well as domestic politics, the middle class counts the most. It sometimes seems that the prevailing global agenda combines elite concerns about matters such as intellectual property, investment protection and regulatory harmonisation with moral concerns about global poverty and posterity, while offering little to those in the middle. Approaches that do not serve the working class in industrial countries (and rising urban populations in developing ones) are unlikely to work out well in the long run.

Third, we may be headed into a world where capital is abundant and deflationary pressures are substantial. Demand could be in short supply for some time. In no big industrialised country do markets expect real interest rates to be much above zero in 2020 or inflation targets to be achieved. In the future, the priority must be promoting investment, not imposing austerity. The present system places the onus of adjustment on “borrowing” countries. The world now requires a symmetric system, with pressure also placed on “surplus” countries.

These precepts are just a beginning, and many questions remain. There are questions about global public goods, about acting with the speed and clarity that the current era requires, about co-operation between governmental and non-governmental actors, and much more. What is crucial is that the events of the past month will be seen by future historians not as the end of an era, but as a salutary wake up call.

*The writer is Charles W Eliot university professor at Harvard and a former US Treasury secretary*

NYT

# At Global Economic Gathering, Concerns That U.S. Is Ceding Its Leadership Role

By [JONATHAN WEISMAN](http://topics.nytimes.com/top/reference/timestopics/people/w/jonathan_weisman/index.html)APRIL 17, 2015

Photo



Treasury Secretary Jacob J. Lew, left, with Japan's finance minister, Taro Aso, on Thursday. Credit Jose Luis Magana/Associated Press

WASHINGTON — As world leaders converge here for their semiannual trek to the capital of what is still the world’s most powerful economy, concern is rising in many quarters that the United States is retreating from global economic leadership just when it is needed most.

The spring meetings of the International Monetary Fund and World Bank have filled Washington with motorcades and traffic jams and loaded the schedules of President Obama and Treasury Secretary Jacob J. Lew. But they have also highlighted what some see as a United States government so bitterly divided that it is on the verge of ceding the global economic stage it built at the end of World War II and has largely directed ever since.

“It’s almost handing over legitimacy to the rising powers,” Arvind Subramanian, the chief economic adviser to the government of India, said of the United States in an interview on Friday. “People can’t be too public about these things, but I would argue this is the single most important issue of these spring meetings.”

Washington’s retreat is not so much by intent, Mr. Subramanian said, but a result of dysfunction and a lack of resources to project economic power the way it once did. Because of tight budgets and competing financial demands, the United States is less able to maintain its economic power as China gains influence in Asia and elsewhere, and because of political infighting, it has been unable to formally share it either.

President Obama is clearly trying to hold the stage, at least rhetorically. Pitching his efforts to secure a major trade accord with 11 other Pacific nations, he told reporters on Friday, “the fastest-growing markets, the most populous markers, are going to be in Asia, and if we do not help to shape the rules so that our businesses and our workers can compete in those markets, then China will set up the rules that advantage Chinese workers and Chinese businesses.”

In an interview on Friday, Mr. Lew hotly contested the notion of any diminution of the American position.

“I think there is a bipartisan desire for the United States to play a strong leadership role in the world,” Mr. Lew said. “There may be individuals who feel differently about how you express that and how you project it, but I don’t think you can find anyone who would say they don’t want the United States to play a leadership role.”

But the challenges keep mounting.

An overhaul of the I.M.F.’s governance structure, negotiated five years ago in large part by President Obama to give China and other emerging powers more authority commensurate with their growing economic strength, has languished in Congress. That, in part, propelled China to create its own multilateral lending institution in direct competition with the behemoths in Washington.

The efforts to secure an ambitious 12-nation Pacific trade agreement, also championed by Mr. Obama, has set off perhaps the biggest fight of his presidency within his own party, with trade unions, environmentalists and liberal activists lining up to fight the White House.

Even the United States’ Export-Import Bank, a lending agency similar to export financing arms in countries around the world, could be killed in June by conservatives in Congress, leaving would-be foreign customers in the cold and many American exporters at a disadvantage to competitors abroad.

“I’ve been searching for a word to describe it, and the one I use is ‘withdrawal,’ best I can come up with,” said Edwin M. Truman, a former Obama Treasury official now with the Peterson Institute for International Economics. “We’re withdrawing from the central place we held on the international stage.”

That concern crosses party lines.

“This is really about a crossroads for America and its leadership for the world,” said Representative Dave G. Reichert, Republican of Washington. “We set the tone, we set the path for the global economy by being leaders. And if we don’t, other countries step in.”

The costs could be real. Failure to bolster the I.M.F. and other institutions weakens the West’s hand in confrontations like the one with Russia over Ukraine, which has begged for multilateral economic assistance. Senator Lindsey Graham, Republican of South Carolina, pointed to conflicts like the one in Syria, suggesting that when it ends, the inability of the I.M.F. and World Bank to help rebuild only opens the door to confrontational actors like Iran.

“Sometimes we can only hope it’s China that steps in,” he said.

For much of Washington and the world’s economic leaders, China’s creation of the Asian Infrastructure Investment Bank crystallized the choice policy makers face. For years, China had threatened to establish institutions to rival those dominated by the West, like the I.M.F., World Bank and Asian Development Bank — or even to establish its currency, the renminbi, as a reserve currency to rival the dollar.

In 2010, Mr. Obama brokered a deal to raise China’s stake in the I.M.F. to 6 percent from 3.8 percent, still far below the United States’ vetoing share of 16.5 percent but enough to give Beijing a larger say. Congress has blocked the proposed adjustment.

Meantime, China’s international lending has soared. Fred P. Hochberg, who heads the Export-Import Bank, said that in the last two years alone, Chinese state-run lenders have lent $670 billion. Ex-Im has lent $590 billion since it was created during the Depression of the 1930s.

With nearly $4 trillion in foreign exchange reserves, China has plenty of resources to project its rising economic power. For example, China’s president, Xi Jinping, plans to offer $46 billion to Pakistan for infrastructure assistance that would open new transportation routes across Asia and challenge the United States as the dominant power in the region.

“The United States has lost its way and is rapidly forfeiting claims to global financial, economic, political and moral leadership,” Kevin Rafferty, a former World Bank official, wrote recently. He blamed the White House: “Not for the first time, Obama has shown he can talk eloquently, but does not have a political clue how to get things done.”

Many experts and historians, however, say too much can be made of the moment. Walter Russell Mead, a professor of foreign affairs at Bard College, noted that the rise of China as an economic force was inevitable, and that its establishment of a rival, multilateral lending institution was far different from the international behavior of the Soviet Union and communist Chinese during the Cold War.

Then, he said, America’s rivals were trying to destroy and replace the economic order established by the United States and Britain after World War II. Now, emerging powers are emulating it, however imperfectly.

 “That may not be such a bad thing,” he said. “The English national team often loses to India in cricket, but you can’t say the British have no influence on India. They’re playing cricket.”

Joseph Nye of the Kennedy School of Government at Harvard called the recent missteps that led to the Asian infrastructure bank more like “one of a long line of dumb decisions” the United States has made in its history “than a canary in a coal mine” signaling long-term decline.

Whatever the ultimate consequences, it is clear that there is plenty of finger-pointing going on. Senator Bob Corker of Tennessee, chairman of the Foreign Relations Committee and a potential ally on international economics, echoed Mr. Rafferty. In an interview, he said he included the I.M.F. quota adjustment in an aid package last year to beleaguered Ukraine, but Mr. Obama, he insisted, did not personally intervene to push it through.

He fretted that new legislation granting the president “fast track” trade-promotion authority to complete major trade deals with Asia and Europe would stall without enough White House attention.

“I was in Southeast Asia in August, and the countries there know there’s no real capital being expended, and they’re worried,” Mr. Corker said, his voice rising in frustration. “They just cannot pull themselves together to push for something, whether it be T.P.A. or I.M.F., that requires any degree of effort. They just can’t do it.”

Administration officials scoffed at the charge.

“I can tell you I have spent dozens if not hundreds of hours talking to central bankers and finance ministers,” Mr. Lew said. “They understand we are sparing no expense.”

The leader of the opposition both to the I.M.F. reforms and the Export-Import Bank has been Representative Jeb Hensarling of Texas, the chairman of the House Financial Services Committee, backed by the [Tea Party](http://topics.nytimes.com/top/reference/timestopics/subjects/t/tea_party_movement/index.html?inline=nyt-classifier) wing of the Republican Party.

Even Senator Graham fretted about the isolationism creeping into his party, on defense and economic policy.

The opposition to international trade alliances, on the other hand, is being led loudly by Democrats who had previously been the president’s most stalwart backers, with an assist from ardent conservatives who oppose anything Mr. Obama does.

Senator Tim Kaine, Democrat of Virginia and an emerging internationalist advocate, suggested that two decades of war were turning elements of both parties inward.

“The network of international rules and institutions is a peculiarly U.S. creation” that has helped foster peace and prosperity for decades, he said. “The U.S. has built this up, not only for our own benefit but for the world. That we are now stepping back from a leadership role is highly, highly problematic.”

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# China’s AIIB Recasts Development Finance — and U.S. Influence



China’s success in securing 57 founding members for its new regional lending institution, the Asian Infrastructure Investment Bank (AIIB), signals the real limits of U.S. influence in the region in the post-Cold War era. As of the March 31 deadline for initial applications to join the AIIB, among major industrial powers only U.S. ally Japan, so far, has spurned Beijing’s plan.

Britain, Germany, France, Italy, Australia and South Korea are among the dozens of countries that have signaled their intention to be founding members of the new bank. China’s coup in economic diplomacy comes as negotiations for the U.S.-backed Trans-Pacific Partnership, or TPP, once again appear stalled, with little prospect for a consensus in coming months.

China’s plans call for setting the AIIB’s initial authorized capital at $100 billion, with China providing up to 50% of that amount. Subscribed capital is set at $50 billion. It is still too early to say if China’s new lending institution might supplant the International Monetary Fund (IMF) and World Bank as a major source of financing for infrastructure projects, analysts say. The outcome will depend partly on the ground rules, or “articles of association,” for the AIIB Charter.

What is certain is that the AIIB as envisaged so far dovetails with China’s own geopolitical and commercial interests in expanding its economic reach and trade networks in Southeast Asia, South Asia and Central Asia.

**Japan Holds Out**

Japan has so far hedged its bets, refraining from joining, but saying it is awaiting a reply from China to questions it has raised over how the AIIB will be run. A decision to not join in the long run could put a dent in Prime Minister Shinzo Abe’s effort to boost exports of major Japanese infrastructure services, products and technology. Japanese media have cited officials saying that Tokyo is still considering whether to sign on. But Japan lacks the ability to defy the U.S. in setting its own policy on such issues, says Kazuo Yukawa, an expert on contemporary China and professor at Asia University in Tokyo.

The AIIB is part of a grand scheme rolled out by President Xi Jinping beginning in 2014 for developing a modern “Silk Road Economic Belt” and 21st century Maritime Silk Road to finance construction of a network of highways, railways and other infrastructure linking China to Central and South Asia, the Middle East and Europe. At the annual APEC (Asia-Pacific Economic Cooperation free trade association) summit in Beijing in November, Chinese President Xi announced that China would contribute the entire $40 billion in its new Silk Road Fund to improve trade and transport links in Asia.

“[The AIIB is motivated by multiple factors, one is geopolitical and one is purely economic](https://twitter.com/intent/tweet?original_referer=http%3A%2F%2Fknowledge.wharton.upenn.edu%2Farticle%2Fchinas-aiib-recasts-regional-development-finance-and-u-s-global-influence%2F&url=http%3A%2F%2Fknlg.net%2F1HxAhW3&source=tweetbutton&text=%27The%20AIIB%20is%20motivated%20by%20multiple%20factors%2C%20one%20is%20geopolitical%20and%20one%20is%20purely%20economic.%27%20Via%20%40whartonknows%3A" \t "_blank)*[Twitter](https://twitter.com/intent/tweet?original_referer=http%3A%2F%2Fknowledge.wharton.upenn.edu%2Farticle%2Fchinas-aiib-recasts-regional-development-finance-and-u-s-global-influence%2F&url=http%3A%2F%2Fknlg.net%2F1HxAhW3&source=tweetbutton&text=%27The%20AIIB%20is%20motivated%20by%20multiple%20factors%2C%20one%20is%20geopolitical%20and%20one%20is%20purely%20economic.%27%20Via%20%40whartonknows%3A" \t "_blank)*, because once this bank exists, combined with the Silk Road Fund, it will begin to finance a lot of infrastructure, particularly railway infrastructure, in Central Asia, Western Asia and South Asia and even in the Middle East,” says Pieter P. Bottelier, a former senior World Bank official. “If that works, it will enable the Chinese to export excess capacity of large industry, such as the state-owned railway manufacturing industry.”

While it is clearly in Beijing’s commercial interest, the plan also is presented as a way to bridge shortages of infrastructure financing across the region, ideally, enabling countries that lag behind to close their development gap. Given that strong selling point, experts say U.S. objections to the plan rang hollow and reinforced Chinese convictions that Washington is seeking to “contain” China.

“The probable explanation would be that U.S. did not want China to have such a very powerful instrument for foreign policy such as AIIB. Staying out and recommending allies to stay out — Japan, South Korea, Australia and European countries — in China’s eyes, that confirmed that [the U.S.] wants to limit the rise of China,” says Bottelier, who is now a senior professor of China studies at the School of Advanced International Studies at Johns Hopkins University in Baltimore.

**Failed U.S. Strategy**

The consensus in the field of international finance and Asian diplomacy is that the U.S. strategy toward AIIB so far has failed. “I think China has played this quite ably and the U.S. played it about as badly as it possibly could,” says one former senior official of a multinational development bank, who declined to be named. [Franklin Allen](http://knowledge.wharton.upenn.edu/faculty/allenf/), a Wharton professor of finance agrees. “America just looks so silly because the U.S. asked other countries not to go in, but now all those countries except Japan are going in. It has been a very successful Chinese move,” Allen says. Allen is also a professor at Imperial College in London and head of its Brevan Howard Centre.

“America just looks so silly because the U.S. asked other countries not to go in but now all those countries except Japan are going in.”–Franklin Allen

China has been seeking for years to gain a bigger role in existing institutions such as the International Monetary Fund, the World Bank and the Asian Development Bank (ADB). China has only a 4.2% stake in the World Bank while the U.S. has a 15.8% stake and Japan has a 6.8% stake. The U.S. and Japan have 15.6% and 15.7% stakes, respectively, in the ADB, while China’s is just 6.5%.

Customarily, a Japanese official chairs the ADB — Japan’s central bank governor, Haruhiko Kuroda, was president of the ADB before returning to Tokyo, when he was succeeded by a finance ministry official, Takehiko Nakao. “It is kind of strange that China is so underrepresented at the IMF and World Bank,” Allen says. “It is not surprising that China is doing this.”

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Since the U.S. has so far failed to win approval by Congress for IMF reforms, it was in no position to oppose the AIIB, says the former senior official of a multinational development bank. “U.S. government officials could have just asked the question, ‘What is China’s vision for the new bank and how would it be different from the ADB and World Bank?’ and then sat back and seen how things developed. But they attacked it instead, lobbied others not to join and, having failed to stop the Brits from joining, committed the original sin of whining to the world about their failure. It’s embarrassing.”

“This is a huge mistake that the U.S. made and it cannot be corrected,” adds Bottelier. “Even if the U.S. applies for membership now, I think the damage has already been done. I do not understand it at all. Whoever recommended that President Obama do what he did should be fired. I think it was one of biggest foreign policy blunders that U.S. has made in years.”

In opting to back the AIIB, Britain and other major Western nations were not joining a “gold rush” but were acting on the premise that the American approach was mistaken, Bottelier adds. “Europeans want to do more business with China and they do not have security concerns about China,” says Allen. “I think that they realized that China is not a threat to them at all, so they are better off to join. In fact, they would like to balance the Russians with the Chinese, so they are quite willing to do this.”

Another of Xi’s aims is to undermine President Barack Obama’s “pivot to Asia” and the push for the dozen-nation TPP, an Asia-Pacific rim trade zone that so far excludes China. Awkwardly for the U.S., almost all of the countries participating in the TPP talks plan to join the AIIB, which is lacking the “high hurdles” laid out by the U.S. as a condition for joining the pan-Pacific trade bloc.

Apart from pushing ahead with its own trade pact, the Free Trade Area of the Asia Pacific, Beijing is tapping its $3.89 trillion in foreign exchange reserves to set up multinational bodies like the AIIB, the BRICS Bank and a bank for the Central Asian-oriented Shanghai Cooperation Organization Bank, while still seeking to increase its influence at the ADB and the World Bank. In July, the BRICS group, which also includes Brazil, Russia, India and South Africa, agreed to set up a bank to be based in Shanghai by 2016.

Questioning the need for yet another multilateral lender, Japan and the U.S. have raised concerns over whether the AIIB would have a transparent governance structure and adequate standards for project selection, preparations, procurement, and environmental impact and resettlement. After years of working to reform and improve standards at the World Bank and other lenders, the worry is that AIIB might undercut them for the sake of commercial or political expedience.

“This is a huge mistake that the U.S. made and it cannot be corrected.”–Pieter P. Bottelier

**China Forgoes Veto Power**

To assuage such concerns, China offered to forego veto power at the AIIB, in a move that helped win over major European countries, according to a March 23 report by The Asian Wall Street Journal. That would be a change from IMF practice, where the U.S. holds the right to nix big decisions despite holding less than 20% of voting shares, a structure that has long raised complaints.

“My understanding is that the Chinese have agreed that they will not have similar clauses in the charter of the AIIB, which is being drawn up,” Bottelier says. “By giving up veto power, China is teaching the U.S. a lesson on multilateralism.”

The AIIB is bound to give strong voting rights to Asia, says Rajiv Biswas, Singapore-based chief Asia Pacific economist at IHS Economics. “China will have a big role as they are putting up half of the money and they are going to need reasonable voting rights. They will not want a situation where the U.S. and Europe will hold most of votes. But we do not know. A lot of discussion has to take place about how to distribute the voting rights. So far, it is not clear what the rules of governance will be.”

One reason many European countries joined the AIIB from the outset is to have a say in how it is structured and governed. “If they wait until later on, it may be too late to change the structure. Now is the time to join, before it is established, if you want to have influence,” Biswas says.

A team in Beijing, led by AIIB Secretary General Jin Liqun, a veteran of the Chinese central bank, China’s sovereign investment fund, the China Investment Corp., the World Bank and ADB, with help from several Chinese and American retired World Bank staffers, is drafting Articles of Association that will have to be approved by the AIIB’s founding members before the Bank can formally open for business, says Bottelier. “All these concerns are expressed without any knowledge of what the final charter of this bank will look like,” he says. “So the criticism is premature. Once we know the charter, it will be time to express our opinions.

“I don’t think we know yet on what terms the newly established Silk Road Fund will make available funds for infrastructure financing outside China. It could be tied loans; it could also be untied loans and/or grants,” Bottelier adds. “The AIIB has not yet been formally established.”

Politics and governance aside, the need for infrastructure investment and financing is massive not only in Asia, but also other parts of the developing world. The Asian Development Bank estimated its region alone faces an annual financing shortfall of $800 billion. McKinsey & Co. estimates the global infrastructure investment requirement through 2030 at $57 trillion to $67 trillion. “The reality is Asia needs a lot of money for infrastructure development and the ADB does not have enough money to provide that kind of funding,” Biswas says. “Asia needs trillions of dollars over the next 10 years. The AIIB is only $100 billion, but it helps.”

The ADB has adopted a neutral attitude toward the AIIB plan. ADB President Takehiko Nakao said in a statement after a March 24 meeting with Chinese Premier Li Keqiang, “When the Asian Infrastructure Investment Bank (AIIB) is formally established, adhering to international best practices in procurement and environmental and social safeguard standards on its projects and programs, ADB will be happy to consider appropriate ways of cooperation.”

On March 24, Obama’s administration, seeing that all America’s allies except Japan are applying to be founding members of the AIIB, proposed that the AIIB work in partnership with the World Bank and ADB. “The U.S. would welcome a new multilateral institution that strengthens the international financial architecture,” said Nathan Sheets, the U.S. Treasury’s undersecretary of international affairs. “Co-financing projects with existing institutions like the World Bank or the Asian Development Bank will help ensure that high quality, time-tested standards are maintained.”

Said the former senior official of a multinational development bank: “I had also heard that the U.S. was encouraging the ADB and AIIB to co-finance projects in the near term until AIIB has some staff and experience. That’s a great idea and I hope it happens. I do not know how Japan’s [Ministry of Finance] feels about it, but I would guess Nakao is open to it.”

Environmental and governance issues actually are hindering financing for infrastructure development in developing countries, “so to a certain degree what China is saying is true, that there is a big need to provide infrastructure investment in the developing countries,” the official notes.

“The reality is Asia needs a lot of money for infrastructure development and the ADB does not have enough money to provide that kind of funding.”–Rajiv Biswas

**Environmental Work-around?**

But U.S. officials worry that China may provide money to some countries with dictatorships or may ignore environmental issues and lend the money, said a China expert who declined to be named. “Initially, there was concern because people thought it will be mainly an organization controlled by China, with many developing countries as members.”

Now, however, it looks like a lot of European countries will be members as well. So the standards will be set according to the agreement of all these countries, says Biswas. “The chances are high that the standards will be set high.” Much will become clear in the next several months as the organization negotiates over voting rights, governance and lending standards.

Toshiya Tsugami, a China expert and managing director of Tsugami Workshop Co., a consulting company, says that if China tries to use AIIB in tandem with the Silk Road Fund to pursue Beijing’s “One Belt and One Road” investment strategy, it could lead to conflicts of interest.

China has been clear about its other motives: opening up new markets for domestic industries troubled by excessive production capacity; growing the outbound investment of its state enterprises, and diversifying the use of huge foreign currency reserves.

China has serious excess capacity problems in heavy equipment manufacturing (including train and locomotive manufacturing) and in construction, Bottelier points out, so the motivation for setting up the AIIB may well be partly related to that. “Wouldn’t you try to do something like that if you had China’s excess capacity problem and nearly $4 trillion in forex reserves that earn almost nothing?” he asks.

But he expects that despite the obvious self-interest, contracts for AIIB loans will likely be based on international competitive bidding, as is the case for the ADB and the World Bank. “Otherwise, the 57 other founding shareholder countries would not agree to its articles,” Bottelier says.

Still, China is maneuvering from a position of strength, having already set up the $40 billion Silk Road Fund, which is financed and completely controlled by Beijing.

“China is a big player in providing development finance for other Asian countries and that may mean that those countries are using the money to buy Chinese railways, or using Chinese engineering companies to build the railways,” Biswas says. “China wants to play a greater leadership role in the Asia Pacific region and in emerging markets around the world. In Asia, China is a big lender and that will increase its influence in the region.”

NYT

# Past Time to Reform Bretton Woods

By [THE EDITORIAL BOARD](http://www.nytimes.com/interactive/opinion/editorialboard.html)MAY 16, 2015

The reluctance of American and European officials to give developing nations a greater role in the International Monetary Fund and the World Bank risks making those institutions less relevant and effective than they could be.

The two trace their founding to 1944, when officials from the United States, Britain and other countries met in Bretton Woods, N.H., to restructure the global economic system. At the time, America held most of the economic cards. World War II was devastating Europe and Japan, a brutal [civil war](https://history.state.gov/milestones/1945-1952/chinese-rev) in China would soon resume, and India was still a British colony.

The global economy has changed greatly since then, but who calls the shots at the two institutions has not. Both are based in Washington.

The United States and European countries collectively are the largest shareholders, and they appoint the top executives. Despite their rapid growth, China, India and other developing countries have much smaller votes than their relative size in the global economy.

For many years, officials in developing countries quietly grumbled about Western control of these two organizations, and for good reason. The I.M.F. lends to financially troubled nations, and the World Bank finances development projects in poor countries. Why shouldn’t developing countries have a bigger say? Nevertheless, they did not dare to openly challenge the status quo.

That may be changing. China has decided that it will wait no longer for a bigger role on the global economic stage. Recently, it said it would create the [Asian Infrastructure Investment Bank](http://www.nytimes.com/2015/03/14/world/asia/asian-infrastructure-investment-bank-britain-china.html), a rival to the World Bank that has already attracted many European and Asian countries as members. And last year, it enlisted Brazil, India, Russia and South Africa to create the [New Development Bank](http://www.nytimes.com/2014/07/16/world/emerging-nations-bloc-to-open-development-bank.html).

Together, the two China-led banks will have about $150 billion in capital, an amount that is roughly 70 percent of the [World Bank’s](http://treasury.worldbank.org/cmd/pdf/WorldBankFacts.pdf) $223 billion. China has also lent tens of billions of dollars to countries in Africa, Latin America and Asia through bilateral loans.

Some Western leaders, including [many Europeans](http://www.nytimes.com/2015/03/18/business/france-germany-and-italy-join-asian-infrastructure-investment-bank.html) and the [president of the World Bank](http://www.bbc.com/news/business-32343568), have said the West should welcome these new Chinese banks and invest alongside them. One reason is to make sure they operate at the same high standards as the I.M.F. and the World Bank, though Western leaders should have no illusions about their influence, since China intends to dominate both organizations.

The new banks pose a challenge to the West to modernize the old institutions. Even though the I.M.F. has too often pushed countries to adopt destructive austerity policies, and the World Bank has been slow to adapt to the needs of fast-growing developing countries, they remain the best tools the world has to address economic crises and finance development.

To its credit, the Obama administration tried in 2010 to increase the representation of developing countries in both institutions. For example, China’s [voting share](http://www.imf.org/external/np/sec/pr/2010/pdfs/pr10418_table.pdf) on the fund’s board would have increased to 6 percent, which is about half as big as [China’s share of the global economy](http://blog-imfdirect.imf.org/2014/03/26/china-size-matters/), though still considerably higher than the country’s current 3.8 percent share.

But Republicans in Congress have refused to ratify changes to the I.M.F., which would have also increased its capital. They signaled that they would only vote for I.M.F. reforms if they got [something in return](http://www.politico.com/story/2014/01/international-monetary-fund-internal-revenue-service-spending-bill-102347.html) from the administration, like changes in the 2010 health care reform law.

But there is more that the administration and European officials can do on their own without waiting for Congress. For example, they can declare that they will end the anachronistic tradition of appointing a European to head the fund and an American to head the bank. They should simply pick the best candidates for those jobs regardless of nationality.

If the West does not make more space for developing countries in existing financial institutions, the result will probably be a more fragmented global economy.

**NYT Forum**

[**A Changing World Order?**](http://www.nytimes.com/roomfordebate/2015/04/06/when-us-allies-join-the-china-led-development-bank)

How will U.S. allies joining the China-led Asian Infrastructure Investment Bank affect world politics and the global economy?

NYT

# The U.S. Should Get Over Its Unease with China



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Forty-six countries have either joined or applied to be members of the China-led Asian Infrastructure Investment Bank, including Australia and many of America’s closest allies in Western Europe. The bank's progress illustrates China’s emerging approach to shaping an Asia-Pacific regional order that facilitates its quest for a peaceful resurgence: use trade and investment to draw its neighbors more tightly into its orbit, but proceed apace with military modernization so that it can secure its interests through hard power if necessary.

It is imprudent to oppose an institution like the Asian Infrastructure Investment Bank that responds to a critical need.

While the United States has now taken the welcome step of proposing that the bank work in partnership with existing development institutions, among them the World Bank and the Asian Development Bank, its initial responses to the bank’s progress — most notably including a criticism of the United Kingdom for [“constant accommodation”](http://www.nytimes.com/2015/03/20/world/asia/hostility-from-us-as-china-lures-allies-to-new-bank.html) of China — have reinforced the presumption that it seeks to challenge China’s rise, perhaps even constrict it in time.

The United States should focus on advancing its own economic initiatives — chiefly the Trans-Pacific Partnership — and constructively shaping those that China proposes. It is imprudent to oppose an institution, like the Asian Infrastructure Investment Bank, that responds to a critical need: The McKinsey Global Institute [estimated](file:///C%3A/Users/189933/Downloads/MGI%20Infrastructure_Full%20report_Jan%202013%20%283%29.pdf) in January 2013 that “keeping pace with projected global GDP growth will require an estimated $57 trillion in infrastructure investment between now and 2030."

Moreover, there is every reason to expect that China will continue to fund projects, such as the Silk Road infrastructure fund or the New Development Bank, that allow it to compensate for the lack of influence it wields within the present pillars of global economic order: Quartz [notes](http://qz.com/372326/all-the-countries-that-are-joining-chinas-alternative-to-the-world-bank/) that it “commands just 6.47 percent of the vote in the Asian Development Bank, 5.17 percent in the World Bank and 3.81 percent in the International Monetary Fund.” While the United States can (and should) play a significant role in shaping the course of Asia’s accelerating economic regionalism, it cannot (and should not try to) lock in China’s present level of influence or prevent China’s neighbors from participating in Chinese-led economic initiatives.

# What Was Economics Is Now Geopolitcs



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The Asian Infrastructure Investment Bank epitomizes what is problematic with the current economic governance framework and how difficult it is to change, especially when the two largest economies, the United States and China, are competing for influence.

The risk now is fragmented governance in Asia with two development banks — Asian Infrastructure Investment Bank and the existing Asian Development Bank.

The new bank has been portrayed as responding to market demand and providing more choice to countries in the region. If this is the bank’s main purpose, then it is not surprising that advanced economies such as Britain, Germany, France, Italy and Australia have decided to join. These are countries with a significant presence in the region already and/or the ambition for more expansion.

But unfortunately, the U.S. decision to rebuke Britain for joining the bank has shifted the focus from economics to geopolitics. Joining the bank is now a strategic choice instead of a commercial one. And by setting an impossible trade-off, for Britain and the others, between sticking to the old order and joining a China-led business, the U.S. looks out of touch with the changing world economy.

That said, the U.S. has a point, even if it is clumsily posed: Asia infrastructure should be funded through truly multilateral bodies. But the risk now is fragmented governance in Asia with two development banks -- Asian Infrastructure Investment Bank and the existing U.S.-Japan-led Asian Development Bank. Other countries, especially small Asian ones, will have to negotiate between these two blocs.

Infrastructure investment is worth pursuing, for the benefit of less developed countries, but this might happen at good governance’s expense.

# A Sign of the Growing Power of Developing Countries



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Longtime American Group of 20 allies and fellow Western industrialized nations did not join the Asian Infrastructure Investment Bank simply because of the potential return on investment in Asian development projects. Rather, they joined because the global economic order is slowly and surely subscribing to China's view that the International Monetary Fund and World Bank are antiquated when it comes to development and international economic cooperation.

Support for the Asian Infrastructure Investment Bank backs China's view that the I.M.F. and World Bank are antiquated when it comes to development and economic cooperation.

These offspring from Bretton Woods grant a disproportionate voice to the United States and condition their aid on countries adopting Western economic and political institutions. After taking some responsibility for globalization’s failures in the late 1990s, the I.M.F. and World Bank now allow developing countries a longer time frame to implement reforms. However, it is never in doubt that the ultimate goal is a market economy with social values and institutions found in liberal democracies.

China, on the other hand, promises to give developing countries more seats at the decision-making table and to refrain from interfering in their domestic policies. Whether these promises are kept is another matter, but the U.S. should take note that they now hold weight.

The U.S. response to Asian Infrastructure Investment Bank expansion has been clumsy. When the bank was first announced at the Asia-Pacific Economic Cooperation summit last November, America pressured Australia, South Korea and Japan to stay out, fearing that China would use the bank to encroach upon U.S. influence in Asia. After its closest allies joined, the U.S. had to face the failure of its efforts to contain China. Treasury Secretary Jacob Lew reassured Beijing in his visit this week that the U.S. was willing to work with the bank. Last week, Nathan Sheets, Treasury under-secretary for international affairs, sounded unwittingly high-handed when he said U.S. cooperation would ensure, “high-quality, time-tested standards are maintained.” Christine Lagarde at the I.M.F. and World Bank President Jim Kong Kim expressed similar sentiments. In other words, the U.S. would work to ensure the primacy of its approach to the global economy and development.

Instead of continuing to fly this decaying standard, the U.S. should acknowledge both the rise of China’s alternative vision and, more important, its unique position to lead this new order. First, the U.S. should expand funding for the World Bank and the I.M.F. and increase the voting power of China and developing economies on the rise. Second, it must refocus these organizations on the original Bretton Woods goal of coordinating international monetary policy, free of conditionality. The U.S. should capitalize on its ability to facilitate this cooperation within the existing international financial architecture. And remember, though significant, the Asian Infrastructure Investment Bank is still young, without a governing framework and woefully underfunded at $50 billion (compared to Asia’s $1 trillion infrastructure need).

# Regional Institutions Can Be Good for World Policy



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China's new Asia Infrastructure Investment Bank has raised questions about United States policy in Asia. Several European nations, South Korea and Australia have signed on to China's initiative, which seeks to raise $50 billion to $100 billion for Asian development. While the U.S. remains cautious about this new China-led effort to fund infrastructure and development, it should welcome the participation of others.

Here are three reasons why:

While the U.S. remains cautious about this China-led effort to fund infrastructure and development, it should welcome the participation of others.

First, by entering the new bank as founding members, these nations will be able to ensure that the standards and procedures for operating the bank satisfy and strengthen existing multilateral financing norms. All of these nations have extensive experience as Overseas Development Assistance donor countries within the Organization for Economic Cooperation and Development, and have themselves contributed to the development of norms that govern responsible development assistance.

Moreover, these nations also have both the intellectual and institutional capacities to ensure responsible oversight of the bank's projects. There is no reason to assume that they will support or endorse practices or goals that undermine existing global institutions. Rather their participation ensures that the bank becomes a responsible and welcome complement to global sources of development funding.

Second, Australia's decision, perhaps even more than that of our European allies, reveals the new complexities in Asia. Other Asian allies too see their own interests as being served by joining rather than sitting on the outside of this new Chinese initiative. Self-interest dictates working with China in the realm of commerce, trade and now development.

Finally, not all Chinese initiatives challenge the interests of the region, and thus the U.S. should think carefully about how to participate in new regional initiatives while it continues to encourage strong and constructive Chinese presence in existing global institutions. After the Asian Financial crisis in the 1990s, the U.S. opposed a reasonable and helpful Japanese initiative to build a regional source of liquidity in case of a crisis. Later, it became clear that this could have been a help to the smaller nations of Asia that needed access to funding, and it would have established a valuable precedent.

Designing regional institutions that meet the needs of the economically vibrant Asian region while complementing existing global financial and development institutions is possible and should be the basis for U.S. policy response.

# China Is Simply Doing What Others Have Done for Decades



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Despite support from major U.S. allies amid U.S. opposition, the China-led Asian Infrastructure Investment Bank does not pose the fundamental challenge to the existing global economic institutional order that [some](http://www.washingtonpost.com/opinions/fareed-zakaria-chinas-growing-clout/2014/11/13/fe0481f6-6b74-11e4-a31c-77759fc1eacc_story.html) [ascribe to it](http://nationalinterest.org/feature/welcome-the-world-without-the-west-11651).

The China-led Asian Infrastructure Investment Bank does not pose the fundamental challenge to the existing global economic institutional order that some ascribe to it.

Development lending is a policy area where economic influence easily translates into political influence. If you have money you can find countries to lend it to. Western governments have long used [bilateral](http://link.springer.com/article/10.1023/A%3A1009874203400) [aid](http://www.nytimes.com/roomfordebate/2015/04/06/when-us-allies-join-the-china-led-development-bank/www.jstor.org/discover/10.1086/507155?sid=21105855411191&uid=3739256&uid=4&uid=2&uid=3739832) and [World Bank](http://www.sciencedirect.com/science/article/pii/S0304387808000187) lending to gain favors in the international arena and to influence the domestic politics of poorer countries. Japan has similarly applied its [preponderant influence](http://journals.cambridge.org/action/displayAbstract?fromPage=online&aid=8817936&fileId=S004388711200024X) in the Asian Development Bank.

China uses bilateral foreign aid [to advance its political interests](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1926471) but its relatively modest voting shares in the Asian Development Bank and World Bank preclude the multilateral route. This changes with the decision to devote about $50 billion that could have gone to bilateral aid to create a multilateral bank. We don’t really know why — perhaps China has discovered, like the U.S. and Japan, that there are [political](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=225224) [downsides](https://books.google.com/books?hl=en&lr=&id=KTIbxACnMgYC&oi=fnd&pg=PA107&dq=helen+milner+multilateral+aid&ots=BoHBRNK5df&sig=vRiz14qATxUFkXwss1heBuPPXu0%20-%20v=onepage&q=helen%20milner%20multilateral%20aid&f=false#v=snippet&q=helen%20milner%20multilateral%20aid&f=false) to lending directly to poorer nations. The Asian Infrastructure Investment Bank may well turn out different from most of the [two dozen multilateral development banks](http://en.wikipedia.org/wiki/Category%3AMultilateral_development_banks) in that it poses few governance and environmental standards in its lending (neither did the World Bank until relatively recently). But China is essentially doing what other powers have done for decades.

Opportunities to create alternatives to global institutions are [sparser in other policy areas](http://onlinelibrary.wiley.com/doi/10.1111/ajps.12130/abstract) where the benefits of global solutions are more apparent. [Asian](https://scholar.google.com/citations?view_op=view_citation&hl=en&user=yDS6dRUAAAAJ&citation_for_view=yDS6dRUAAAAJ:roLk4NBRz8UC) regional [alternatives](http://asiancenturyinstitute.com/economy/248-chiang-mai-initiative-an-asian-imf) have failed to challenge the International Monetary Fund's role as the primary institution to maintain financial stability. The patchwork of bilateral and regional trade agreements does not substitute for the global market access that the World Trade Organization provides. Nor does China have incentives to undermine the United Nations Security Council. There remain strong interdependencies that keep Chinese interests entangled with the world’s economic and political institutions. China will surely translate its economic might into political influence but in the medium term it is most likely to do so most of the time within rather than outside the existing global institutional architecture.

# If the U.S. Passed the Trans-Pacific Partnership, the Bank Wouldn’t Be an Issue



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The negative strategic and economic implication of U.S. allies joining the Asian Infrastructure Investment Bank is the perception that China is assuming the mantle of economic leadership in Asia. This perception will be negated if Washington passes the Trans-Pacific Partnership.

America's allies joined the China-led bank because there is currently no alternative to Beijing’s new plans, and they want to be part of the 21st century Asian economy.

The truth is, China is in no position to lead Asia. China’s economy is stagnating as its debt grows, its labor force shrinks and its natural resource base is pillaged. The bank is just another way for China to recycle the dollar reserves it holds to sustain a distorted financial system. The Asian Infrastructure Investment Bank is another chance for China to use these reserves to purchase influence among Asian elites by funding politically expedient development projects.

The U.S. is in a strong position to continue its leadership in Asia. China is not catching up with the United States. Rather, the U.S. lead in net national wealth with China is sizable and growing. Washington has the money, the historical experience, and the economic model to lead Asia in the 21st century. To be sure, it needs to show initiative and ambition in revitalizing its economic leadership. Washington’s tools of economic statecraft, such as the aid programs that served it well in the 20th century, are sclerotic.

But Washington's most important policy tool is the Trans-Pacific Partnership. Indeed, there would be little discussion of the China-led bank if a free-market partnership had been passed years ago. The agreement could open up economies such as Vietnam, which would pressure countries like Indonesia to do the same. The Trans-Pacific Partnership could start a new generation of “Asian tigers.”

Washington’s problem is not power or wealth, it is leadership. Allies that have joined the Asian Infrastructure Investment Bank simply do not have an alternative to Beijing’s new plans, but they want to be part of the 21st century Asian economy. While China may be demonstrating the energy and ambition that the U.S. lacks, its bank plans will inevitably waste money on Beijing’s politically driven projects. China’s crony-statist model is failing within China. If the Trans-Pacific Partnership is passed, allies and friends will have a choice between a successful free market model for Asia, or China’s stagnating statist model.