Beyond "The Creation"

The West and the Evolving International Institutional Order

C. Todd Williamson, III
2015–16 Robert Bosch Fellow
Global Public Policy Institute (GPPi)

Robert Bosch Stiftung

GPPi
GLOBAL PUBLIC POLICY INSTITUTE

Table of Contents

Geschichtspolitik

In 1987, the memoirs of former US Secretary of State Dean Acheson were posthumously published as *Present at the Creation*. The title might lead one to believe that the longtime diplomat was present for the creation of the universe. Of course, what is really meant is the "creation," as described in his reflections, of the modern geopolitical institutional universe.

Through the formation of the liberal Western international system during and after World War II, a new global order was created, one that would be completely dominated by the war's victors, at least in the beginning. This new order included institutions like the International Monetary Fund (IMF) and the World Bank, both outgrowths of the Bretton Woods Conference of 1944.

The founding of the United Nations (UN) in 1945 represented another attempt after the League of Nations failed to maintain peace following World War I and to gain US congressional approval. From the outset, the UN dedicated itself to being a body that defuses heated global conflicts before reaching the point of war and defines the standard of human rights in a post-War world. A book entitled *The Act of Creation* provides an account of the UN's planning at the 1944 Dumbarton Oaks Conversations in Washington, DC, and its founding the following year in San Francisco.[1] This title offers yet another example of the predominant view of this time period as the beginning of a "new world order." But as early as the planning process in 1944, there were already signs of division between the Western powers and the Soviet Union in regards to UN governing principles – a division that remains present today in the UN Security Council.

These institutions established global standards in geopolitics that would stand for the rest of the 20th century and into the early 21st century. The "creation" institutions have a say in a wide range of top global issues: human rights, war, trade, poverty, sanctions, migration, disease, conflict resolution, border disputes, lending and environmental standards. Furthermore, the implementation of these institutions' work as well as the global financial system that rose from the post-War ashes were and are dominated by a single currency – the United States dollar. The role of the dollar would later serve as an area of contention in the transatlantic relationship and strengthen the resolve of the European Union to make the euro the currency of the European common market.[2]

The world of Dean Acheson was one in which the Soviet Union went from Western friend to foe in what seemed like a matter of months after the end of World War II. But upon closer, retrospective observation, the relationship suffered from major fractures well before the war's end.[3] At the time of the "creation," Germany was reduced to ashes, and its people were brought to shame by the horrors of the Holocaust and the loss of two wars. Later, the war's victors would split the country into two, a wall dividing Berlin for nearly 30 years. China, taken over by the communist revolution in the 1950s, closed itself off from the Western world and

[1] Schlesinger, Stephen. *Act of Creation: The Founding of the United Nations*, Westview Press: 2003
[2] "Why the euro?", European Commission Economic and Financial Affairs: http://ec.europa.eu/economy_finance/euro/why/index_en.htm
[3] Isaacson, Walter & Thomas, Evan. *The Wise Men: Six Friends and the World They Made,* Simon & Schuster, New York

ousted the previous government from Beijing and eventually from its UN Security Council seat as well.[4]

Meanwhile, many developing nations, experiencing newfound independence from colonial forces, were pulled in opposite directions by the world's two superpowers. For example, during the Cold War, Japan and Indonesia were recruited to join competing "spheres of influence" – the East, led by the Soviet Union, and the West, led by the US. Following the end of the Cold War and the fall of the Soviet Union, the Western powers arguably reached the peak of their power. Cementing their power was the "Group of" summits, a special club featuring the largest industrial nations of the West.

The G6 was informally founded in 1975, following the oil shock and the end of the fixed exchange rate of the Bretton Woods system. French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt called the first G6 meeting. The heads of state from the US, United Kingdom, Japan and Italy were added. Canada joined in 1976, and post-Soviet Russia in 1998, turning the body into the G8.[5] In 2015, Russia's annexation of Crimea and its support for pro-Russian troops in Eastern Ukraine led to its dismissal from the group, bringing the number down to seven.

By 2009, the question of how to resolve the global financial crisis and guide global growth shifted from the G7 to the G20. The G20 is a larger, more inclusive body that includes Russia and rising powers China, Brazil, India, Turkey and Mexico, which are among the 20 largest industrial nations.[6] From the G20, meetings like the annual BRICS summit emerged, which exclude Western powers and provide an outlet of collaboration for the rising powers. This has further put into question the influence of the G7.

Today, several "developing nations" of yesteryear have become the "emerging economies" of today, claiming some of the largest annual GDP and population growth in the world. A reunified Germany has become what some in the West hoped or feared it would become at the time of the fall of the Berlin Wall: the strongest nation in Europe.[7]

China, with its mix of private-sector corporatism and one-party communist rule, is now the second-largest economy in the world – and it is still growing.[8] It leads emerging markets and serves as the quintessential model for the shift away from the traditional international order to one in which non-traditional Western powers like itself create their own institutions, demanding greater representation in existing ones and expose the lack of coordination of priorities and differences among the G7 nations.

The most profound examples indicating that international geopolitics have moved beyond the Western-led, post-1945, liberal-based order include the formation of two multilateral development institutions created, participating or based in China. The Asian Infrastructure and

---

[4] Winkler, Sigrid. "Taiwan's UN Dilemna: To Be or Not To Be." Brookings Institution: June, 2012 http://www.brookings.edu/research/opinions/2012/06/20-taiwan-un-winkler

[5] German Federal Government. "From Rambouillet to Brussels: The history of the G7," 2015 https://www.g7germany.de/Content/EN/StatischeSeiten/G7_elmau_en/texte_en/2014-11-05-geschichte-g8.html

[6] Analyst View. "G20 ends reign of G7 in Pittsburgh," Reuters, September 25, 2009. http://www.reuters.com/article/us-g20-reaction-analystview-sb-idUSTRE58P04Z20090926

[7] Volkery, Carsten. "The Iron Lady's Views on German Reunification: 'The German's Are Back,'" Spiegel Online International: September 11, 2009 http://www.spiegel.de/international/europe/the-iron-lady-s-views-on-german-reunification-the-germans-are-back-a-648364.html

[8] The World Bank. China Overview http://www.worldbank.org/en/country/china/overview

Investment Bank (AIIB) and the New Development Bank (NDB) are both viewed by existing Western-led organizations as potential partners and adversaries.

Brick by BRICS

During the global financial crisis of 2008 – stemming from the US and compounded by the European debt crisis – emerging powers China, India, Brazil, Nigeria, Mexico, Indonesia, Turkey and South Africa experienced record-breaking annual economic growth. Several factors contributed to this growth: a rise in commodities prices; a greater number of citizens entering the workforce rather than retiring; and monetary easing policies in both the US and Europe. As a result of their growing economic and political clout, emerging market economies began to make clear their dissatisfaction with their representation within the Bretton Woods institutions.

Following the 2009 BRICs summit, the participating countries explained their motive for creating parallel institutions vis-à-vis the West:

> We will strive to achieve an ambitious conclusion to the ongoing and long overdue reforms of the Breton Woods institutions. The IMF and the World Bank urgently need to address their legitimacy deficits. Reforming these institutions' governance structures requires first and foremost a substantial shift in voting power in favor of emerging market economies and developing countries to bring their participation in decision-making in line with their relative weight in the world economy.[9]

The launch of AIIB in early 2016 was met with great fanfare, but the NDB as a concept had occurred earlier and did so as a multilateral effort from the outset. In 2010, the IMF Board of Governors approved quota reform as a direct result of the concerns of G20 emerging powers – particularly Brazil, Russia, India, and China (BRIC) – that their global economic and political impact was not fairly reflected in the IMF's voting share. In the proposed reforms, emerging markets and developing nations would receive a 5 percent increase in their voting shares and a 6 percent increase in their quotas.[10] Subsequently, 6 percent quota shares would be taken away from over-represented countries like Saudi Arabia, the UK and Belgium.[11]

The quota level of an IMF member country is supposed to be relative to its standing in the broader global economy. As the global clout of emerging powers like China and India grew in the 1990s and early 2000s, in terms of their annual GDP and economic growth, their quotas were not increased accordingly. Voting rights indicate the level of a country's contribution to the fund.

The IMF's 2010 quota reform, which began as discussions in 2008, was a step in the right direction. It called for "the 10 Fund members with the largest voting share" to consist of the US, Japan, the BRIC countries and the four largest European countries (Germany, France,

---

[9] "BRICS Joint Statistical Publication 2013," Statistics South Africa, http://www.gks.ru/free_doc/new_site/m-sotrudn/eng_site/brics_2013.pdf

[10] Press Release. "IMF Board of Governors Approves Major Quota and Governance Reforms," International Monetary Fund, December 16, 2010

[11] The Globalist. "The IMG in 2050: How should voting powers at the IMF be allocated to reflect the world today — and in the future?," September 17, 2003 http://www.theglobalist.com/the-imf-in-2050/

Italy, UK).[12] The new reforms would make China the third-largest IMF shareholder,[13]still not equal to its actual weight in the global economy. Nonetheless, the reforms were considered satisfactory at the time.

The initial goal was to have these reforms implemented by the Annual Meeting of the Board of Governors in 2012. With the US as the largest IMF shareholder (currently 17.62 percent, or $65 billion[14]), a chief requirement of reform ratification is approval from the US Congress. This may have initially seemed a simple formality, but it turned out to be the biggest hurdle of all. The year 2010 ushered in US midterm elections, which led to a political shift away from a Democratic coalition in both congressional houses (known for passing many of US President Barack Obama's reforms in relatively short order) to a new Republican majority that was elected, in many ways, to block any measure supported or introduced by the president.

By the planned 2012 implementation date, hopes of passing the IMF reform were bleak at best. It was not high on the new congressional majority's priority list. If anything, it was considered an additional cost for the American taxpayer. Rumors of a deal would annually run through Washington after repeated calls of passage from both the IMF and the G20, only to reveal no results. It would take another four years for Congress to approve the reforms. They were included in a larger $1.1 trillion omnibus spending bill, passed in December 2015 to keep the US government funded. While the inclusion of the IMF quota reforms in the spending bill was considered a moment of rare bipartisanship between Obama and newly elected House Speaker Paul Ryan, the damage was done.

Repeated stalling in Congress only exacerbated the frustration of BRIC nations (which added South Africa in December 2010, becoming BRICS with a capital "S") and cemented their idea to form their own development bank. At the 4th BRICS summit in New Delhi in March 2012, seven months ahead of the Annual IMF Board of Governors meeting, India proposed the following:

> The possibility of setting up a new Development Bank for mobilizing resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries.[15]

The formation of a BRICS-led development bank would entrench the bloc's path towards becoming a formalized institution. No longer would these countries be held together simply by virtue of an acronym.[16]

Rather than keep up their constant requests for a seat at the table, the long-dismissed emerging powers set out to create their own table. They signed an agreement to create legal

---

[12] Press Release. "IMF Board of Governors Approves Major Quota and Governance Reforms," International Monetary Fund, December 16, 2010 https://www.imf.org/external/np/sec/pr/2010/pr10477.htm

[13] Mayeda, Andrew. "Congress Approves IMF Change in Favor of Emerging Markets," December 8, 2015 http://www.bloomberg.com/news/articles/2015-12-18/congress-approves-imf-changes-giving-emerging-markets-more-sway

[14] IMF. "IMF Members' Quotas and Voting Power, and IMF Board of Governors," May 15, 2016 https://www.imf.org/external/np/sec/memdir/members.aspx

[15] Council on Foreign Relations. "BRICS Summit: Delhi Declaration." March 29, 2012 http://www.cfr.org/brazil/brics-summit-delhi-declaration/p27805

[16] O'Neill, Jim. "Building Better Economic BRICs" Goldman Sachs Global Economic Paper Np. 66, November 30, 2001 http://www.goldmansachs.com/our-thinking/archive/archive-pdfs/build-better-brics.pdf

provisions for the bank at the 6th BRICS summit in Brazil two years after the New Delhi meeting.[17]

By the time the US Congress passed the IMF reforms in late 2015, the BRICS New Development Bank had an operating framework, named its first president in India's K. V. Kamath and armed itself with a capital base of $100 billion.

In February 2016, the NDB announced that its first loans would be in renminbi bonds in the second quarter of the year, showing that a non-Western institution would utilize and lend in a currency outside of the US dollar or the euro.[18] This is not unprecedented for a multilateral development institution, for the Asian Development Bank (ADB) has been lending to China in renminbi for years. But the NDB certainly marks the first time that the renminbi could be lent from a multinational institution to a country that is not China.[19]

The issuance of the NDB bonds coincides with the IMF announcement in December 2015 that the renminbi would be added to its basket of currencies known as the Special Drawing Rights, which will be implemented in October 2016. The NDB is the definition of beyond the "creation," as it does not involve a single Western nation, and its inclusion of a non-Western currency into its operating procedure to potentially lend outside of Asia.

When countries apply for financing from the World Bank or the IMF, they must agree to a set of structural adjustment policies (SAPs) or restructuring policies in exchange for the funds. These can include wage freezes, ending subsidies and cuts in budget and domestic spending. The NDB will not make such requirements in exchange for its financing. The NDB also hopes to combine safeguards from economic turbulence for its members (similar to the IMF) and provide loans to the developing world, supplemented with technical assistance and equipment (similar to the World Bank).[20]

While the creation of the NDB has been a lesson on the consequences of US congressional inaction on matters related to international affairs, it is also a living, breathing institution formed because the countries that lead the Bretton Woods organizations were reluctant to reform and adapt to a changing world.

"China Creates a World Bank"

In October 2013, China's President Xi Jinping proposed the AIIB as a way to "promote connectivity and economic integration"[21] in Asia. On its face, the AIIB appeared to be a new investment arm for a continent hungry for infrastructure funding, and it even received a subtle show of support from US Secretary of State John Kerry at the time.[22] Exactly a year after Xi's proposal, the initial 22 founding members agreed to a Memorandum of Understanding that

---

[17] BRICS Ministry of External Relations. "Presentation" http://brics.itamaraty.gov.br/

[18] New Development Bank."BRICS Bank Poised for its First Loans and RMB Bonds, February 26, 2016 http://www.ndb.int/bricsbank-poised-for-its-first-loans-and-rmb-bonds.php

[19] Areddy, James T. "Brics Development Bank Pins Hope on China Bond Sale," The Wall Street Journal, March 10, 2016 http://www.wsj.com/articles/brics-development-bank-pins-hope-on-china-bond-sale-1457613691

[20] Pizzi, Michael."BRICS nations hope to bankroll a changing world order," Al-Jazeera English, Intelligence Reports June 4, 2014 http://america.aljazeera.com/articles/2014/6/4/brics-developmentbank.html

[21] CCTV English. "China Proposes Establishing Asian infrastructure investment bank" October 3, 2013

[22] Perlez, Jane. "China Creates a World Bank of Its Own, and the U.S. Balks," The New York Times, December 4, 2015 http://www.nytimes.com/2015/12/05/business/international/china-creates-an-asian-bank-as-the-us-stands-aloof.html?_r=0

was signed in Beijing, with China holding the only veto and a majority share (30.34 percent).[23] This first group included Singapore, the Philippines, Malaysia and Vietnam – all of which have their own respective territorial disputes with China regarding various islands and international sea lanes in the South China Sea. Nonetheless, like many in the greater Asia region, they separated their geographical disputes from their domestic priorities.

For the US and its most reliable partner in Asia, Japan, the AIIB was initially considered a threat to their geopolitical interests, for the two nations have had significant influence in the region since the collapse of the Soviet Union. China has been reinserting itself militarily, politically and economically into the global economy, and the White House felt that the AIIB was one more step in the larger strategy of thwarting US power in the region.

Unsurprisingly, the US government was wary. President Obama's "Pivot to Asia" foreign policy strategy set out not only to counter China's growing influence economically, but also to check its power as a potential aggressor militarily.

The valid concerns of the US regarded less the actual existence of the bank, than the AIIB's governing standards, transparency, regard for human rights, and its willingness to invest in industries that the Bretton Woods institutions hope to avoid. Would the AIIB invest in coal and fossil fuel projects, areas from which the World Bank has tried to remove itself altogether, with mixed results?[24] Would the bank lend in the renminbi, threatening the global prowess of the US dollar? Would the institution undermine the power that the US is able to exert through the Bretton Woods institutions?

For Japan, the idea that a China-led bank would serve as a chief rival to the Asian Development Bank was considered another front that the Western powers could not risk ceding.

Japan is the leading non-borrowing stakeholder of the Philippines-based ADB, at 15.7 percent.[25] All presidents of the ADB since its inception in 1966 have come from Japan[26] – an issue of contention with not only China, but other countries in the region as well. Not until 1986 would the bank make its first loan to China – the same year it became a borrowing member.

Whereas China saw its shares in the IMF and the World Bank remain stagnant or increase slightly in tandem with the expansion of its role in the global economy, its shares in the ADB actually decreased to 5.4 percent in 2006, down from 6.2 percent in 1986[27] These conditions created greater incentive for China to propose and implement the creation of the AIIB.

The AIIB really became an issue of contention among the Western powers once the institution began collecting founding members beyond the original, Asia-based 22. The US and Japan stood firm in their opposition against joining the bank and assumed that their G7 allies would follow suit.

---

[23] Reuters. "China to hold just over 30% of AIIB," republished for CNBC, June 29, 2015. http://www.cnbc.com/2015/06/29/china-to-hold-just-over-30-of-aiib.html

[24] Mathieson, Karl. "World Bank fossil fuel financing leapt in 2014 despite its calls to end subsidies," The Guardian April 17, 2015 http://www.theguardian.com/environment/2015/apr/17/world-bank-fossil-fuel-lending-leapt-in-2014-despite-its-calls-to-end-subsidies

[25] "Shareholders" Credit Fundamentals, Asian Development Bank http://www.adb.org/site/investors/credit-fundamentals/shareholders

[26] Asian Development Bank. "Past ADB Presidents," http://www.adb.org/about/management/past-presidents

[27] Wan, Ming. *The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for the East Asian International Order,* Palgrave Pivot, December 2015.

In March 2015, however, the UK joined the AIIB, much to the surprise of Beijing and the shock and chagrin of its closest ally, the US. The Obama administration, which received only a 24-hour notice from its UK counterparts,[28] accused Britain of "constant accommodation" of China, a charge not well-received at 10 Downing Street. Moreover, although Switzerland and Luxembourg beat the UK to the punch as the first countries in Europe to announce their intention to join as founding members, Britain's membership gave the AIIB an immediate legitimacy that it lacked prior. The UK's application for membership caught even its closest allies in Europe off guard.

But there had been warning signs. One early hint dates back to May 2012, when UK Prime Minister David Cameron and then Deputy Prime Minister Nick Clegg met with the Dalai Lama in London, provoking the ire of the Chinese government.[29] China essentially ceased high-level bilateral political relations with Britain for over two years.

Britain began changing its tone soon after. It made the calculation that its desire to attract much needed Chinese investment outweighed any justification for the meeting with His Holiness. By 2014, Chinese Premier Li Keqiang's visit to London resulted in a package of trade deals, a simplification of the travel visa system for Chinese nationals visiting the UK and a condition for the trip: Li wanted a meeting with Her Majesty Queen Elizabeth II.[30]

The 2015 UK elections brought about a decisive victory for the Tories. This allowed them to get rid of their power-sharing government, the first since World War II, with Nick Clegg's Liberal Democrats. With the rise in stature of UK Chancellor of the Exchequer George Osborne, who has long held the idea that 21st century geo-economics prowess will belong to China, the UK's efforts to mend relations with Beijing began in earnest.

Osborne visited Beijing in September 2015, six months after the UK announced its intention to apply for AIIB membership. Osborne pledged support for "One Belt, One Road," a multi-billion dollar initiative of the Chinese party-state that would open trade lanes and connectivity between China and Europe through build-out infrastructure such as ports, bridges and hydro- and nuclear power plants. The trip also resulted in discussions about making the UK the first renminbi-trading hub outside of China.[31]

This new rebranding of the UK-China relationship reached its crescendo in October 2015. During his visit to London, President Xi gave separate addresses to the House of Commons and the House of Lords, and he unveiled billions of dollars worth of investments, including collaboration with France on the Hinckley Point C nuclear power plant in Somerset. By December 2015, the UK became the first country outside of Asia and the first G7 member to ratify the Articles of Agreement of the AIIB.[32] Following Britain, the rest of the G7 nations –

[28] Perlez, Jane. "China Creates a World Bank of Its Own, and the U.S. Balks," The New York Times, December 4, 2015 http://www.nytimes.com/2015/12/05/business/international/china-creates-an-asian-bank-as-the-us-stands-aloof.html?_r=0

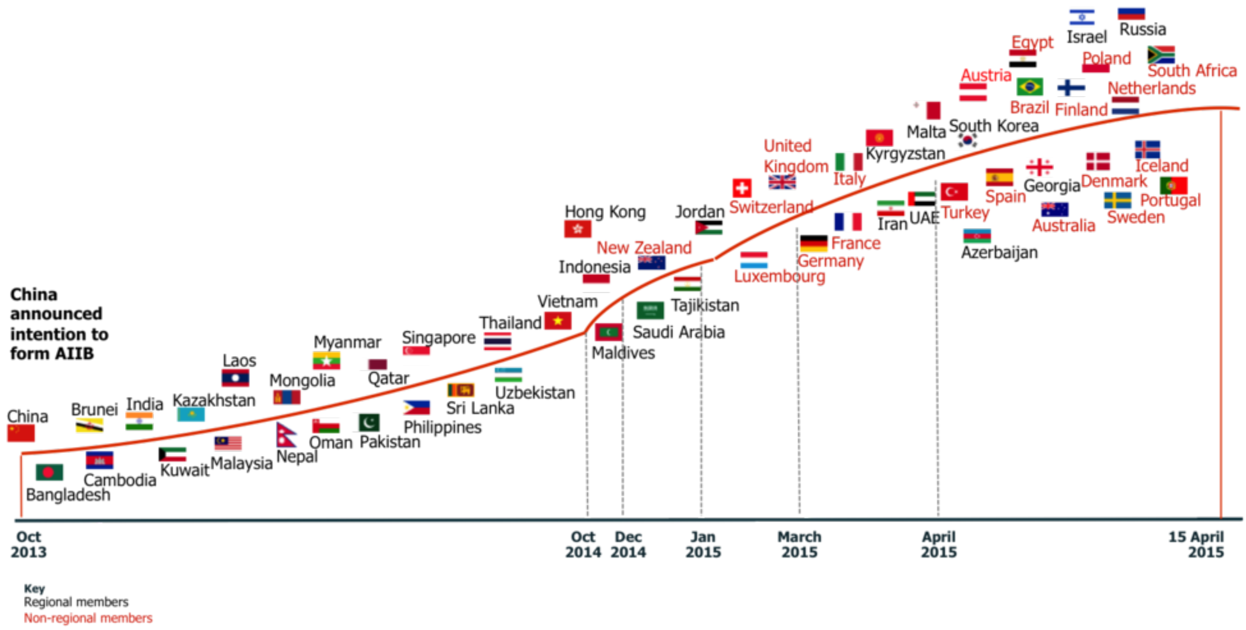
[29] UK Politics, "David Cameron's Dalai Lama meeting sparks Chinese protest," BBC, May 16, 2012 http://www.bbc.com/news/uk-politics-18084223

[30] Odell, Mark. "How David Cameron lost, and then won, China" Financial Times, March 12, 2015 http://www.ft.com/intl/cms/s/0/98c6f8f0-c8df-11e4-bc64-00144feab7de.html#axzz46G12hoJr

[31] Read, Simon. "Osborne's China deal makes London renminbi hub outside Asia" The Independent, September 22, 2015. http://www.independent.co.uk/news/business/news/osbornes-china-deal-makes-london-renminbi-hub-outside-asia-10511898.html

[32] HM Treasury. "Danny Alexander appointed as Vice-President of new Asian Infrastructure Investment Bank," February 6, 2016. https://www.gov.uk/government/news/danny-alexander-appointed-as-vice-president-of-new-asian-infrastructure-investment-bankn

aside from the US and Japan – joined. Germany, France and Italy followed suit soon after, announcing their intentions to join in mid-2015.



33 1.A - Following the signing of the MOU between initial 22 members in Oct '14, European countries within the G7 began to join.

Germany was caught off guard by the UK's decision to join the AIIB as well. But like the UK, Germany soon came to recognize the realistic reasons for not joining. As the largest economy in Europe, Germany under Chancellor Angela Merkel has been a leader in major geopolitical events. Germany has had a leading diplomatic role in the Minsk I and II ceasefire agreements, in the EU sanctions following Russia's annexation of Crimea and in negotiations of the Iran nuclear deal, as a member of the P5+1 or (EU3 +3) group.

Prior to its much-criticized handling of the refugee crisis in Europe, Germany was in the headlines as a member of "The Troika," the three-part majority bondholders of Greek debt that also includes the European Central Bank (ECB) and the IMF. Germany is usually not mentioned in conversations about other rising powers like China, Brazil and India; indeed, Germany's quick rise as a geopolitical power often goes overlooked.

Leaders in Berlin knew that it was in the best interest of Germany, as the largest player in Europe, to join a bank spearheaded by the second-largest global economy. The German government announced that it would join the AIIB in March 2015, soon after the UK. By the official launch of the AIIB in January 2016, Germany was the fourth-largest shareholder, at 4.1 percent,[34] behind China, India and Russia. Germany stated:

---

[33] Arnott, Colin. "More than 50 countries sign up to be members of the AIIB." Waters Economics, April 17, 2015 http://www.waterseconomics.com/news/2015/4/17/more-than-50-countries-sign-up-to-be-members-of-aiib

[34] Anklesaria Aiyar, Swaminathan S. "Why US Allies Are Happy to Join China's AIIB," The Diplomat, June 30, 2015. http://thediplomat.com/2015/07/why-us-allies-are-happy-to-join-chinas-aiib/

> In the German government's view, participating in the AIIB builds on Germany's successful involvement in international development banks and financial institutions for the purpose of supporting infrastructure projects.[35]

The addition of Germany gave German Finance Minister Wolfgang Schäuble pause for thought, even though this move was considered a necessity for Germany as a rising global leader with membership in existing multilateral institutions. During an April 2015 panel discussion at the Council on Foreign Relations in New York, Schäuble was asked by former US Treasury Secretary Larry Summers about the inconsistent way in which the G7 and other European nations handled AIIB membership:

> I was not amused that we didn't get a common position of all G7…Emerging economies will play a more important role. But even this means that what we used to call the transatlantic partnership, including Japan, is even more important.[36]

Schäuble went on to comment that the UK had a "go ahead" mentality, without coordinating its membership plans with the other European powers in the G7. According to Schäuble, Germany's membership came after a series of discussions and was a collective decision made with G7 partners France and Italy.

For the UK and Germany, early entry was rewarded with high positions. In the governing structure of the AIIB, China holds the presidency, and five vice president slots with specific responsibilities have been given to the highest-weighted member countries. Germany has been awarded the slot of chief operating officer. Former Chief Secretary to the Treasurer Danny Alexander will represent the UK as the AIIB's vice-president and corporate secretary.

Meanwhile, the formation of the AIIB and the development of its membership exposed divisions in the G7 and brought to light strong conflicting interests in the US-UK special relationship and the greater Western alliance.

"Come Together"

Although the US, Japan and Canada are still holding out on joining the AIIB, their positions have softened since the bank's launch. Former US Treasury Hank Paulson, an expert on China, has publicly stated that it was a mistake that the US did not join the bank, and he considered the decision a strategic disadvantage and a missed opportunity.

AIIB President Jin Liqun has been making the rounds in political economy circles in an attempt to familiarize the international community with the bank. At the 2015 World Economic Forum meetings in Davos, Switzerland, Jin described the AIIB as a "clean, lean, and green" institution. This appears to equate to operating under a smaller staff than its contemporaries (lean) and to having systems in place for fending off corruption (clean).[37]

---

[35] Press Release. " German cabinet adopts legislation to join Asian Infrastructure Investment Bank" German Federal Ministry of Finance, September 2, 2015.

[36] Schäuble, Wolfgang. "Germany and Europe's Economy: A Conversation With Wolfgang Schäuble," Council on Foreign Relations. April 15, 2015.

[37] Wei, Lingling. "China-Led Development Bank AIIB Will be Lean, Clean and Green, Says its President," The Wall Street Journal, January 22, 2016 http://www.wsj.com/articles/china-led-development-bank-will-be-lean-clean-and-green-says-head-1453479933

He has also stated that the AIIB will be “faster” than the World Bank, referring to its highly bureaucratic infrastructure. This includes a resident board that weighs in on the majority of projects.

The AIIB’s non-resident board of directors consists of 12 governors nine from the Asia-Pacific region and three from outside. Among its responsibilities are to “admit and suspend members, increase or decrease capital stock, allocate net income and determine reserves, elect the President of the Bank, change the size and composition of the Board of Directors or its non-resident basis, and amend the Articles of Agreement.”[38] In addition, the AIIB’s board will communicate electronically and meet physically less frequently.[39]

Jin has discussed the differences between the bank and its counterparts. He has stated that the AIIB seeks not only to learn from some of the perceived disadvantages of existing banks, but also to adapt best practices from them and to collaborate.

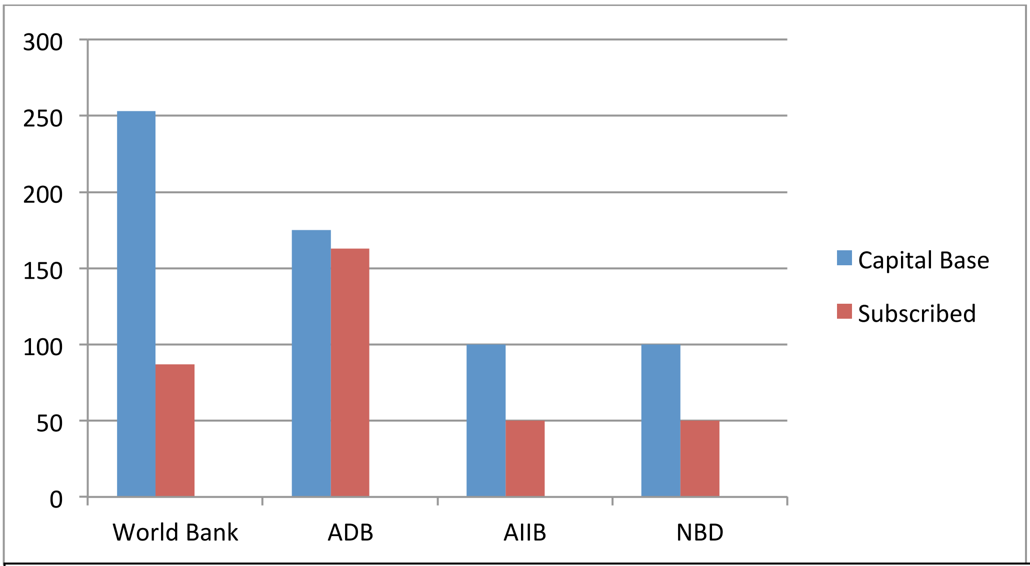
He has consistently emphasized that the AIIB plans to work with existing Western multilateral institutions, including the World Bank, the ADB, the European Bank for Reconstruction and Development (ERDB) and the UK Department for International Development (DFID). So far, the desire for collaboration has been reciprocated – for example, DFID has set up a working group to focus on collaborative projects with the AIIB.[40]

In April 2016, the World Bank and the AIIB signed their first co-financing framework agreement, for both institutions are discussing over a dozen collaborative projects in sectors like energy, water and transportation throughout greater Asia. As for fears regarding the potential lowering of standards by the AIIB, the World Bank states that these collaborative projects will be co-financed “in accordance to its policies and procedures in areas like procurement, environment and social safeguards.”[41] The AIIB has been in discussions about additional collaborative projects, including plans in Tajikistan to build a road from the capital city Dushanbe to the Uzbekistan border with the ADB as well as a roadway in Pakistan between Shorkot to Khanewal with the ADB and DFID.[42]

By attaining leadership roles at the top of the AIIB, Germany and the UK have the opportunity to hold the AIIB accountable on global standards. They will have an “inside looking out” perspective, rather than the other way around. Europe reciprocated by inviting China to join the ERDB in 2015.[43] Although the move is symbolic, it illustrates Europe’s intent to include China into the greater existing international order and Europe’s access to China’s capital. It also gives China greater credibility outside of Asia, a strategy that the US has been less keen on. But the lack of inclusion led to the formation of the NDB and the AIIB in the first place.

---

[38] Asian Infrastructure and Investment Bank. “Articles of Agreement,“ June 29, 2015
[39] Anthea Mulakala. “New Asian Infrastructure and Investment Bank Breaks Ground: What You Need to Know,” The Asia Foundation, January 27, 2016.
[40] Sundstrom, Bo. “The Asian Infrastructure Investment Bank: Briefing from DFID,” UK Department for International Development. September 10, 2015.http://www.britishexpertise.org/bx/pages/Event_view/1101.php
[41] Press Release. “World Bank and AIIB Sign First Co-Financing Framework Agreement,” The World Bank, April 13, 2016
[42] Mitchell, Tom and Farchy Jack. “China’s AIIB seeks to pave new Silk Road with first projects,” Financial Times, April 19, 2016 http://www.ft.com/intl/cms/s/2/a36af0d0-05fc-11e6-9b51-0fb5e65703ce.html#axzz46SC2B36B
[43] Williams, Anthony.“EBRD Approves China Membership Application,“ European Bank of Reconstruction & Development, December 14, 2015



1.B – [In billions USD] - Comparison of AIIB and NBD's capital base and subscribed capital in comparison to Western-led counterparts World Banks and ADB.

44454647

The World Bank and the ADB will benefit with the AIIB and the NDB in the mix. With much of the discourse pitting these institutions against each other as rivals, issues such as demand and opportunity are not highlighted enough. Besides, the math does not add up for a rivalry. As illustrated in 1.B, the World Bank has a capital base of $253 billion via its lending arm, the International Bank for Reconstruction and Development, with $87 billion of it subscribed or earmarked to be lent out.[48] Meanwhile, the ADB has roughly $175 billion in capital base, with $163 billion of it subscribed. This equates to $428 billion in combined capital for both institutions. If you include the combined capital of the AIIB and the NDB, totaling $200 billion, this brings the total combined capital of all four institutions to approximately $628 billion.

The ADB estimated in 2010 that Asia needs roughly $8.3 trillion in infrastructure financing over the next decade.[49] In short, there's more than enough opportunity to go around, and it is in the best interests of the Western-led institutions and the new ones to collaborate. With so much infrastructure demand in the region, the World Bank and the ADB can preserve their capital through collaborations, and the AIIB and the NDB could benefit from building a credible portfolio.

---

[45] AIIB. "Purpose, Functions, and Membership," http://www.aiib.org/html/pagefaq/Key_Provisions/
[46] ADB. "Media Advisory-ADB's Capital Base," October 23, 2014 http://www.adb.org/news/media-advisory-adbs-capital-base
[47] NDB. "Agreement on the New Development Bank," New Development bank, July 15, 2014. http://ndbbrics.org/agreement.html
[48] Donnan, Shawn, "World Bank head opens case over capital," Financial Times
[49] Bhattacharyay, Biswa Nath. "ADBI Working Paper Series: Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific:2010-2020," Asian Development bank Institute, September, 2010.

Conclusion

New multilateral development and infrastructure institutions are among the many ways in which rising powers are creating their own parallel order. The liberalization of the renminbi and its greater usage outside of China are signs of the country's global clout. In October, the renminbi will be the first non-G7 currency to join the IMF's Special Drawing Rights, the basket of currencies that currently includes the dollar, pound, euro and yen. The elevated status of the renminbi has added to greater EU-China engagement in some aspects. The UK is now the second largest offshore renminbi-clearing center (Hong Kong is first)[50] and German Chancellor Merkel signed an agreement during a 2015 visit to Beijing that created the China Europe International Exchange (CEINEX). CEINEX, the first trading platform outside of mainland China for RMB-denominated bonds and exchange-traded funds, is a collaborative effort between Deutsche Börse and the Shanghai Stock Exchange.[51]

CEINEX is itself an example of how much the world has evolved since the "creation." Germany and China are the most powerful countries in Europe and Asia, respectively. The geopolitical and economic gains of both countries since their rise from the ashes of the world wars and revolution have played a central part in the international evolution. The two countries have also proved that existing geopolitical power structures do not accurately reflect the weight of global powers.

Germany, for example, does not hold a permanent seat on the UN Security Council with veto power, despite its huge role in Europe. Despite not having a seat, Germany played a major or leading role in the Iran nuclear deal, the European sovereign debt crisis and the negotiations with Russia regarding Ukraine. China is not a member of the G7 and the US and EU is currently opposed to granting it market economy status in the World Trade Organization (WTO) 15 years after its induction into the body. Yet China has been able to launch its own mega free trade agreement, the Free Trade Area of the Asia-Pacific (FTAAP), a proposed deal that seeks to effectively overrule the piecemeal free trade agreements that currently exist, or are under negotiation, among Asia-Pacific economies.[52]

In addition, China also plays major roles in BRICS and APEC, and it is a permanent veto holding member of the UN Security Council. During the Cold War and before the financial crisis, the "creation" institutions legitimized their members to carry out global statecraft. During that period, there was a small market for nations to operate outside of the construct of the Western-led liberal order.

Similar examples can be made for Brazil, Nigeria and Indonesia. All three are the largest economies in Latin America, Africa[53] and Southeast Asia, respectively. None are members of the G7. None have ever held the presidency of a global multinational institution. None have a

[50] Hughes, Jennifer, Lockett, Hudson. " UK becomes second-largest offshore renminbi clearing centre," Currencies, Financial Times, April 28, 2016 http://www.ft.com/intl/cms/s/0/9fd82346-0cf2-11e6-b41f-0beb7e589515.html#axzz47aDhqIR4

[51] Williamson, Todd. "Too Big To Sanction," Foreign Policy, March 18, 2016 http://foreignpolicy.com/2016/03/18/too-big-to-sanction-rmb-china-imf/

[52] Tiezzi, Shannon." China's Push for an Asia-Pacific Free Trade Agreement," The Diplomat, October 30, 2014 http://thediplomat.com/2014/10/chinas-push-for-an-asia-pacific-free-trade-agreement/

[53] Print Edition. "Africa's New Number One," The Economist, April 12, 2014 http://www.economist.com/news/leaders/21600685-nigerias-suddenly-supersized-economy-indeed-wonder-so-are-its-still-huge

veto-holding permanent seat on the UN Security Council. Yet political and economic developments in their sovereigns have significant impact on the rest of the world.

Today, working outside of the perceived traditional space of the Western order appears to be the norm. The initial reaction to this phenomenon was to view it as a lethal rival to the Western order[54] – a shatter point marking the beginning of the end of US dominance and the final death knell of the old empires of Europe.

New institutions and systems like the AIIB, the NDB and the G20 validate long-held beliefs that the West's leadership on the global stage has changed.[55] But this is not necessarily a bad thing. These new institutions are just that: new. Their credibility on the global stage has yet to be proven. Meanwhile, the institutions of the older order could benefit from the shared responsibility that could come from additional support on investment projects and national development.

Hyperbolic descriptions of a 21st century–version of the Cold War with China do nothing for the discourse and have shown to be inaccurate, to say the least. Besides, the Soviet Union and the West never openly negotiated over major issues that did not involve nuclear proliferation (of each other's nuclear stock piles) or peace talks to end proxy wars, and they certainly did not have as close trade ties as the West currently does with China.

The formation of the AIIB and the NDB specifically showed that the Western alliance has major competing interests in its approach to the new order – some of it due to their past, some due to their diverging views of the future. In addition, when domestic politics in the West stall on making major decisions across the board, as in IMF reform, it has great implications for the decision-making of the rising powers. And now, that role is reversible.

The world is not what it once was. The geopolitical order has evolved from the post–World War II alignment to one that is much more nuanced, complicated and interconnected via enhanced trade lanes, direct investment and technology. The percentage of extreme poverty has also drastically decreased since 1990,[56] an achieved goal by The World Bank, but the challenge of keeping these populations out of poverty remains. The development of schools, hospitals, clean water, commercial infrastructure, transportation, housing, vaccines, energy diversification, roads and bridges are in demand. For multilateral development institutions, there is more than enough work to go around.

The world is facing national and international threats from terrorism, a major migration crisis, income disparities, climate change, data privacy issues, fallen prices in commodities and systemically low growth. How the Western powers institutionally adapt to the ability of emerging economies to assist in tackling these challenges will be the biggest test of the transatlantic relationship for the remainder of the 21st century.

---

[54] Agencies. "China establishes rival to World Bank," The Telegraph, December 25, 2015 http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/12069026/China-establishes-rival-to-World-Bank.html
[55] Pizzi, Michael. "BRICS nations hope to bankroll a changing world order," Al-Jazeera America, June 4, 2014 http://america.aljazeera.com/articles/2014/6/4/brics-developmentbank.html
[56] The World Bank. "Overview," April 13, 2016 http://www.worldbank.org/en/topic/poverty/overview

The Author

C. Todd Williamson, III

C. Todd Williamson, III is a 2015-16 Robert Bosch Stiftung Fellow at the Global Public Policy Institute (GPPi) in Berlin. His focus areas include transatlantic relations, political risk analysis, and emerging markets.

Prior to the Bosch Fellowship, Todd was a senior government relations associate at JPMorgan Chase & Co. with the international government relations team, where he focused on the firm's global engagement. In this capacity, he worked with US and foreign governments on policy issues related to JPMorgan Chase's international businesses and provided advice and information to its business units about international policy developments affecting the firm and its clients. Prior to this role, he was an associate for JPMorgan Chase's federal government relations team, based in Washington, DC, where he helped manage the firm's federal-civic engagement efforts and served as a liaison on Capitol Hill for J.P. Morgan Social Finance.

Immediately prior to his time at JPMorgan Chase, Todd was a special assistant in the Obama administration at the US Department of Agriculture in the Office of Congressional Relations and in the Office of Rural Development. During that time, he served on the White House "Cities in Transition" working group and the White House Council on Auto Communities and Workers. Todd was also a legislative assistant for Congressman Hank Johnson, covering financial services, budget and education policy. In 2007, he co-founded *Club Relaford,* an online political lifestyle magazine about US and international affairs.

Todd received his master's in communication, culture and technology from Georgetown University and his bachelor's in broadcast journalism from the Scripps Howard School of Journalism and Communications at Hampton University.

Sources

Schlesinger, Stephen. *Act of Creation: The Founding of the United Nations,* Westview Press: 2003

European Commission Economic and Financial Affairs. "Why the euro?, European Commission Economic and Financial Affairs: http://ec.europa.eu/economy_finance/euro/why/index_en.htm

Isaacson, Walter & Thomas, Evan. *The Wise Men: Six Friends and the World They Made*, Simon & Schuster, New York

Winkler, Sigrid. "Taiwan's UN Dilemna: To Be or Not To Be." Brookings Institution: June, 2012 http://www.brookings.edu/research/opinions/2012/06/20-taiwan-un-winkler

German Federal Government. "From Rambouillet to Brussels: The history of the G7," 2015 https://www.g7germany.de/Content/EN/StatischeSeiten/G7_elmau_en/texte_en/2014-11-05-geschichte-g8.html

Analyst View. "G20 ends reign of G7 in Pittsburgh," Reuters, September 25, 2009. http://www.reuters.com/article/us-g20-reaction-analystview-sb-idUSTRE58P04Z20090926

Volkery, Carsten. "The Iron Lady's Views on German Reunification: 'The German's Are Back,'" Spiegel Online International: September 11, 2009 http://www.spiegel.de/international/europe/the-iron-lady-s-views-on-german-reunification-the-germans-are-back-a-648364.html

The World Bank. China Overview http://www.worldbank.org/en/country/china/overview

Press Release. "IMF Board of Governors Approves Major Quota and Governance Reforms," International Monetary Fund, December 16, 2010 https://www.imf.org/external/np/sec/pr/2010/pr10477.htm

Mayeda, Andrew. "Congress Approves IMF Change in Favor of Emerging Markets," December 8, 2015 http://www.bloomberg.com/news/articles/2015-12-18/congress-approves-imf-changes-giving-emerging-markets-more-sway

IMF. "IMF Members' Quotas and Voting Power, and IMF Board of Governors," May 15, 2016 https://www.imf.org/external/np/sec/memdir/members.aspx

Council on Foreign Relations. "BRICS Summit: Delhi Declaration." March 29, 2012 http://www.cfr.org/brazil/brics-summit-delhi-declaration/p27805

BRICS Ministry of External Relations. "Presentation" http://brics.itamaraty.gov.br/

New Development Bank."BRICS Bank Poised for its First Loans and RMB Bonds, February 26, 2016 http://www.ndb.int/bricsbank-poised-for-its-first-loans-and-rmb-bonds.php

Areddy, James T. "Brics Development Bank Pins Hope on China Bond Sale," The Wall Street Journal, March 10, 2016 http://www.wsj.com/articles/brics-development-bank-pins-hope-on-china-bond-sale-1457613691

Pizzi, Michael."BRICS nations hope to bankroll a changing world order," Al-Jazeera English, Intelligence Reports June 4, 2014 http://america.aljazeera.com/articles/2014/6/4/brics-developmentbank.html

CCTV English. "China Proposes Establishing Asian infrastructure investment bank" October 3, 2013

Perlez, Jane. "China Creates a World Bank of Its Own, and the U.S. Balks," The New York Times, December 4, 2015 http://www.nytimes.com/2015/12/05/business/international/china-creates-an-asian-bank-as-the-us-stands-aloof.html?_r=0

Reuters. "China to hold just over 30% of AIIB," republished for CNBC, June 29, 2015. http://www.cnbc.com/2015/06/29/china-to-hold-just-over-30-of-aiib.html

Mathieson, Karl. "World Bank fossil fuel financing leapt in 2014 despite its calls to end subsidies," The Guardian April 17, 2015 http://www.theguardian.com/environment/2015/apr/17/world-bank-fossil-fuel-lending-leapt-in-2014-despite-its-calls-to-end-subsidies

"Shareholders" Credit Fundamentals, Asian Development Bank http://www.adb.org/site/investors/credit-fundamentals/shareholders

Asian Development Bank. "Past ADB Presidents," http://www.adb.org/about/management/past-presidents

Wan, Ming. The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for the East Asian International Order, Palgrave Pivot, December 2015.

HM Treasury. "Danny Alexander appointed as Vice-President of new Asian Infrastructure Investment Bank," February 6, 2016. https://www.gov.uk/government/news/danny-alexander-appointed-as-vice-president-of-new-asian-infrastructure-investment-bankn

Arnott, Colin. "More than 50 countries sign up to be members of the AIIB." Waters Economics, April 17, 2015 http://www.waterseconomics.com/news/2015/4/17/more-than-50-countries-sign-up-to-be-members-of-aiib

Anklesaria Aiyar, Swaminathan S. "Why US Allies Are Happy to Join China's AIIB," The Diplomat, June 30, 2015. http://thediplomat.com/2015/07/why-us-allies-are-happy-to-join-chinas-aiib/

Press Release. " German cabinet adopts legislation to join Asian Infrastructure Investment Bank" German Federal Ministry of Finance, September 2, 2015.

Schäuble, Wolfgang. "Germany and Europe's Economy: A Conversation With Wolfgang Schäuble," Council on Foreign Relations. April 15, 2015.

Wei, Lingling. "China-Led Development Bank AIIB Will be Lean, Clean and Green, Says its President," The Wall Street Journal, January 22, 2016 http://www.wsj.com/articles/china-led-development-bank-will-be-lean-clean-and-green-says-head-1453479933

Asian Infrastructure and Investment Bank. *Articles of Agreement,* June 29, 2015

Sundstrom, Bo. “The Asian Infrastructure Investment Bank: Briefing from DFID,” UK Department for International Development. September 10, 2015. http://www.britishexpertise.org/bx/pages/Event_view/1101.php

Press Release. “World Bank and AIIB Sign First Co-Financing Framework Agreement,” The World Bank, April 13, 2016

Mitchell, Tom and Farchy Jack. “China’s AIIB seeks to pave new Silk Road with first projects,” Financial Times, April 19, 2016 http://www.ft.com/intl/cms/s/2/a36af0d0-05fc-11e6-9b51-0fb5e65703ce.html#axzz46SC2B36B

Williams, Anthony. “EBRD Approves China Membership Application,“ European Bank of Reconstruction & Development, December 14, 2015

AIIB. ”Purpose, Functions, and Membership,“ http://www.aiib.org/html/pagefaq/Key_Provisions/

ADB. “Media Advisory-ADB’s Capital Base,“ October 23, 2014 http://www.adb.org/news/media-advisory-adbs-capital-base

NDB. “Agreement on the New Development Bank,“ New Development bank, July 15, 2014. http://ndbbrics.org/agreement.html

Donnan, Shawn, “World Bank head opens case over capital,” Financial Times

Bhattacharyay, Biswa Nath. “ADBI Working Paper Series: Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020,” Asian Development bank Institute, September, 2010.

Hughes, Jennifer, Lockett, Hudson. “ UK becomes second-largest offshore renminbi clearing centre,” Currencies, Financial Times, April 28, 2016 http://www.ft.com/intl/cms/s/0/9fd82346-0cf2-11e6-b41f-0beb7e589515.html#axzz47aDhqIR4

Williamson, Todd. “Too Big To Sanction,“ Foreign Policy, March 18, 2016 http://foreignpolicy.com/2016/03/18/too-big-to-sanction-rmb-china-imf/

Tiezzi, Shannon. “China's Push for an Asia-Pacific Free Trade Agreement,” The Diplomat, October 30, 2014 http://thediplomat.com/2014/10/chinas-push-for-an-asia-pacific-free-trade-agreement/

Print Edition. “Africa’s New Number One,“ The Economist, April 12, 2014 http://www.economist.com/news/leaders/21600685-nigerias-suddenly-supersized-economy-indeed-wonder-so-are-its-still-huge

Agencies. “China establishes rival to World Bank,” The Telegraph, December 25, 2015 http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/12069026/China-establishes-rival-to-World-Bank.html

Pizzi, Michael. “BRICS nations hope to bankroll a changing world order,” Al-Jazeera America, June 4, 2014 http://america.aljazeera.com/articles/2014/6/4/brics-developmentbank.html

The World Bank."Overview," April 13, 2016
http://www.worldbank.org/en/topic/poverty/overview

Notes

Conference attendance. *Chatham House Conference on Infrastructure Finance,* Chatham House London, UK, November 23-24, 2016.

Robert D. Blackwill and Jennifer M. Harris. *War by Other Means: Geoeconomics and Statecraft,* The Belknap Press of Harvard University Press: 2016.

Jones, Bruce. *Still Ours To Lead: America, Rising Powers, and the Tension Between Rivalry and Restraint, Brookings Institution Press: 2014.*

Stuenkel, Oliver. *The BRICS and the Future of Global Order,* Lexington Books: 2015.