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U.S. Opposing China's Answer to World Bank

By JANE PERLEZ OCT. 9, 2014

BEIJING — For almost a year, China has been pitching an idea to its neighbors in Asia: a big, internationally funded bank that would offer quick financing for badly needed transportation, telecommunications and energy projects in underdeveloped countries across the region.

With the public backing of President Xi Jinping and a pledge from Beijing to contribute much of the \$50 billion in initial capital, the plan could be seen as an answer to critics who have long argued that China should take on greater responsibilities as a world power. But the United States, perhaps the most vocal of such critics, especially on issues such as climate change and arms proliferation, has not embraced the Chinese proposal.

Instead, in quiet conversations with China's potential partners, American officials have lobbied against the development bank with unexpected determination and engaged in a vigorous campaign to persuade important allies to shun the project, according to senior United States officials and representatives of other governments involved.

The dispute, the latest manifestation of Chinese-American competition in Asia, could escalate in coming weeks, as Beijing pushes to confirm South Korea and Australia as founding partners of the bank in time for Mr. Xi to formally announce it at a summit meeting of Asian leaders in November. President Obama is scheduled to attend the meeting, and Washington is pressing the two countries to reject the Chinese plan.

Beijing has asked dozens of nations to contribute funds to the bank, which it calls the Asian Infrastructure Investment Bank, and hopes it will become a global institution that rivals the World Bank. To give it broader scope, the Chinese have invited and won the support of some wealthy Middle East nations, including Qatar and Saudi Arabia. But if Washington persuades

South Korea and Australia to abstain, it would all but ensure membership in the bank would be limited to smaller countries, depriving it of the prestige and respectability the Chinese seek.

The United States Treasury Department has criticized the bank as a deliberate effort to undercut the World Bank and the Asian Development Bank, international financial institutions established after World War II that are dominated by the United States and Japan, senior South Korean and Australian officials said. Washington also sees the bank as a political tool for China to pull countries in Southeast Asia closer to its orbit, a soft-power play that promises economic benefits while polishing its image among neighbors anxious about its territorial claims.

A senior Obama administration official said the Treasury Department had concluded that the new bank would fail to meet environmental standards, procurement requirements and other safeguards adopted by the World Bank and the Asian Development Bank, including protections intended to prevent the forced removal of vulnerable populations from their lands.

“How would the new institution add value? How would the Asian Infrastructure Investment Bank be structured so that it doesn’t undercut the standards with a race to the bottom?” asked the senior official, who spoke on condition of anonymity because the administration has asked its members to refrain from publicly criticizing the Chinese proposal.

But Washington’s arguments run up against undisputed needs on the ground in Asia — needs that existing institutions have been unable to meet, some development experts said.

The Asian Development Bank estimated in 2009 that the region would need as much as \$8 trillion in investments in physical infrastructure by 2020 — an amount that exceeds what it or the World Bank can muster, experts at the two banks said.

Clay Lowery, a senior United States Treasury official from 2005 to 2009, said the Obama administration’s objections are not entirely well founded. The Chinese plan, he argued, “could be a positive development — potentially a great way to get Asian countries to work together on significant financial needs in the region.”

Last year, the United States said it would oppose financing of coal-fired

power plants by the Asian Development Bank because of concerns about global warming. And early this year, Washington said it would not support construction of dams by the bank if they displaced people from their homes.

“Energy is one of the biggest needs of economic growth in Asia, and China will be able to promise projects without these hindrances,” said a senior A.D.B. official, who spoke on condition of anonymity because the bank does not want to be seen in a public spat with China. The Manila-based bank has become so encumbered with restrictions that it now takes up to seven years on average for a project to go from proposal to approval to completion, the official said.

He added that the bank, worried about competition from the Chinese, has begun looking at ways to streamline its procedures. The A.D.B. has reason to be anxious, he said, because the \$50 billion in capital planned by China would immediately make the new bank a significant competitor. China has also told prospective members that it expected another \$50 billion from financial institutions and private capital. By comparison, the A.D.B. has about \$78 billion in capital, including retained earnings and borrowings.

The Chinese government has tapped one of its top finance officials, Jin Liqun, the former head of China's sovereign wealth fund and a former senior official at the A.D.B., to lead the new bank.

In a sign of the discord between Washington and Beijing over the bank, Mr. Jin met in August with the United States ambassador to China, Max Baucus, and bluntly told him to tell Washington to soften its opposition to the bank, a senior Obama administration official familiar with the encounter said.

Mr. Jin, who was in Washington last month trying to chip away at the administration's opposition to the bank, declined interview requests.

The fact that a banker from Japan — China's chief rival in Asia — has led the A.D.B. since its inception in the mid-1960s is an incentive for Beijing to establish and lead a development bank, said He Fan, assistant director of the Institute of World Economics and Politics in Beijing. But the major motivation for the initiative is the failure of the United States to live up to promises to allow greater Chinese participation in the World Bank and the International Monetary Fund, Mr. He said.

“China is more suspicious of the existing international institutions

because China feels it was not one of the founders,” he said. “China feels a lack of ownership.”

Australia, which depends on China for its economic well-being and on the United States for its security, has not announced if it will support the Chinese proposal. But the government was ready to sign up if China meets its conditions on how the bank will be governed, said Peter Drysdale, a professor of economics at Australian National University who has advised Australian governments.

Mr. Drysdale described American opposition to the bank as a “churlish” reaction to the “economic and diplomatic kudos” that China might win, and called concerns that the bank would adopt looser standards “nonsense” because “the Chinese are inviting participation in funding and governance.”

In Seoul, South Korea, President Park Geun-hye, whose government has enjoyed warm relations with Beijing, demurred when the Chinese president formally asked South Korea to join the bank during his visit there in July, South Korean officials said at the time. In public, her government praised the proposal and said it would consider it.

But soon after, the senior Korea specialist in the White House, Sydney Seiler, broke with American silence on the subject and expressed reservations about the bank in an interview with Yonhap News Agency. He also noted that the World Bank and the Asian Development Bank were taking steps to increase their lending capacity.

A senior South Korean official, speaking on condition of anonymity because he was not authorized to discuss the bank, said the government remained hesitant, partly because Beijing has insisted that the bank's Chinese president make the big decisions, not its board of directors.

One American ally has already signed up despite Washington opposition: Singapore became a founding member two months ago, saying it wanted to shape the bank from the inside rather than remain a critic outside.

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