



# Asian Infrastructure Investment Bank: Better in than out

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It was sad that Australia announced on October 31 last year that it would not be part of the Asia Infrastructure Investment Bank (AIIB). It was sadder that the announcement was made following a telephone call from American President Barack Obama to Prime Minister Abbott. It looked like Australia was staying out of the bank to accommodate the United States.

What about Australia's interests in this?

Here's what I would have liked the Australian Prime Minister to have said in response to President Obama:

“Mr President, I appreciate your concerns. No one wants a bank that is going to promote the interests of any one country, be it China or another. This has got to be a multilateral institution with sound governance. But that's where our position is different from yours; we think Australia should be part of the bank precisely to ensure the governance of the bank is excellent in every respect. Can't do that by standing on the sidelines. We think Japan and South Korea joining it with us could make that difference.”



Australia's interests aren't always the same as those of a great power, even though we are an ally of the United States and likely to remain one. This principle had been put to me when I was Foreign Minister by the Secretary of the Department of Defence, Dennis Richardson. In this spirit us joining the bank was an opportunity for Australia to demonstrate to South East Asia, let alone Beijing, that as an ally of the US we could think independently and make a decision based on our own interests.

It is certainly in our interests to be part of this bank. On economic grounds the case for the bank is robust. In 2011 the Asian Development Bank (ADB) estimated Asia required US\$750 billion each year to 2020 to finance infrastructure. In 2012 the amount the ADB lent for infrastructure was just US\$7.5 billion. It is no surprise that among the ministers in Abbott's government it was Treasurer Joe Hockey and Trade Minister Andrew Robb – the economics ministers – who were keenest on Australia joining the AIIB. They had to give way to the Prime Minister.

While Australia wobbled, like-minded nations Singapore and New Zealand have signed up.

There have been suggestions that America sees the Chinese-backed bank as providing China with an opportunity to boost its influence in developing countries, those of Asia and the Pacific specifically. To this there are two replies.

First, China can do everything it wants in cultivating these nations through its existing bilateral overseas development assistance programs, that is, through foreign aid. If they want to build highways or presidential offices to impress a developing nation that is the simplest and most



direct way to do so, elevating Chinese influence in these jurisdictions. They don't need the more circuitous route of an infrastructure bank.

Second, if Australia, South Korea and Japan choose to be in the bank, Chinese influence is proportionality diluted. Further there will be plenty of opportunity for Australia and its friends to argue a case about guidelines and principles and governance. In fact, Trade Minister Andrew Robb said in December that Beijing had already adopted four of Australia's nine suggestions regarding AIIB corporate governance and had incorporated elements of the other five.

Such participation is the way to rule-out inappropriate or untoward – choose your adjective – bank-funded programs. Being in the bank from the beginning would represent the better approach to balancing Chinese soft power.

It would also be an opportunity to help shape Chinese behaviour, leading it to multilateralism and rewarding it for engagement with what is sometimes called the liberal global order. I recall the observation of Lee Kuan Yew that:

“Peace and security in the Asia-Pacific will turn on whether China emerges as a xenophobic, chauvinistic force, bitter and hostile to the West because it tried to slow down or abort its development, or whether it is educated and involved in the ways of the world -- more cosmopolitan, more internationalized and outward looking.”



Following Xi Jinping's November visit Australia has signalled second thoughts. On December 8 Trade Minister Andrew Robb announced in Beijing that "It's the wish of everyone in the cabinet, from the Prime Minister down" to join the bank. Although Australia was not one of the 21 countries that signed the AIIB's memorandum of understanding on October 24 it will still have the opportunity to significantly shape the foundation of the bank if it signs before the treaty is concluded. China's Ministry of Finance has announced that this is expected to happen in June and that the bank will be operational before the end of the year.

Currently Australia is still pushing for more of its governance requirements to be met and has promised that if China is able to meet these, our government will encourage the US and Japan to add their names to the list of founding members. That's what I'd like to hear.

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