

China's Asian Infrastructure Bank and the 'New Great Game'

The establishment of a new supranational financial institution based in Beijing needn't trigger vain geopolitical rivalries. China and the West can work successfully together to build a more prosperous, equitable economic order across the Asia-Pacific region.

NEW SKIN FOR AN OLD ASIAN GAME

For more than a hundred years, Whitehall was focused on "the Great Game", the geopolitical rivalry pitting the United Kingdom against Russia for control of the vast economic resources of Central Asia and the Indian subcontinent, and the resulting need to fund the construction of costly maritime and land transportation and communication infrastructures. Conservative French commentators such as Tocqueville¹ and Gobineau viewed this as the most important phenomenon of modern times: the former predicting that America would eventually supersede Britain as "the Anglo-Saxon power", the latter describing Russia as the local "Asiatic champion" vying for supremacy.

But, after 1907 (Anglo-Russian partition of Iran) and 1914 (US economy surpassing for the first time that of the British Empire), the center of gravity of world politics and finance moved westward: the next hundred years were clearly centered around an "Atlantic economic ecosystem" whose central institutions were based in New York (UN), Paris (OECD), Brussels (NATO) and Washington (IMF, World Bank) – Soviet Russia

trying in vain to play catch-up for eight decades... But Japan, China and India grew in wealth and importance, contradicting the economic forecasts of US "futurologists" who thought only Russia, a white Eurasian nation, could hope to challenge the Atlantic compact², believing that China was destined to remain an *export-driven* manufacturing platform providing Walmart and Tesco with cheap *consumer products* designed by US brand managers...

THE PRESIDENT'S 'PIVOT' AND ITS PREDICAMENTS

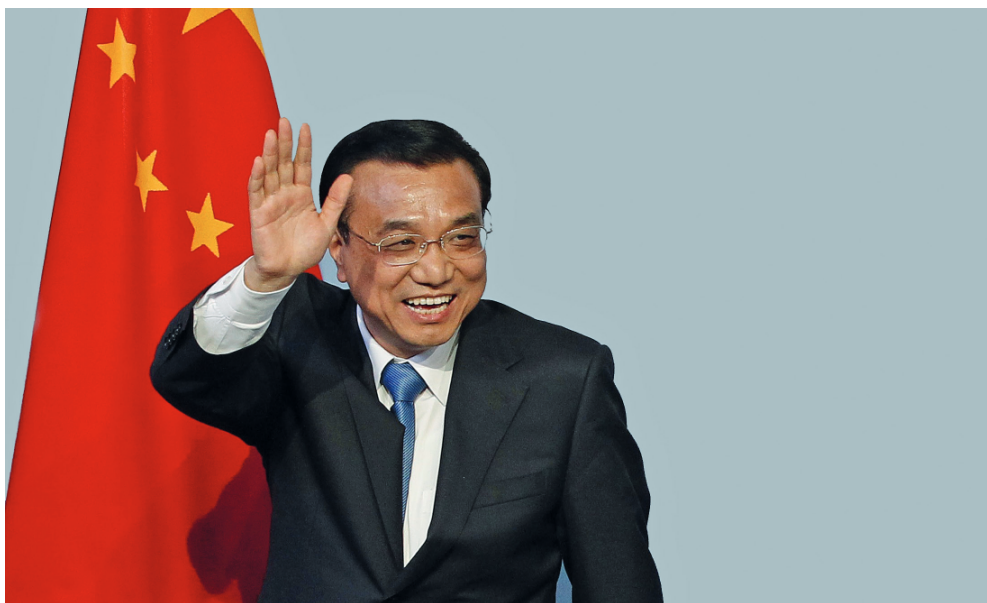
Things changed quite abruptly in the past two years: President Obama's 'Pivot to Asia' (2012-2013)³ surprised European Union policy makers, and, more importantly, British leaders used to the many benefits of the 'special relationship'. When it comes to financial services, the most tangible US favour being the substantial expansion of US investment banking and asset management operations in the City throughout the 1980s and 1990s⁴, which led progressively to the decline of Frankfurt, Paris and Zurich (most Continental European banks eventually had to transfer their global trading and investment activities to the UK). More recently,

other traditional US allies had to cope with the consequences of the Joint Comprehensive Plan of Action (July 2015) known in America as the "Iran Nuclear Deal": Israel and Saudi Arabia were seemingly left hanging out to dry.

To "contain China", the US proceeded to forge new defense and trade alliances with old friends and new-found partners across Asia from Baku to Borneo, with limited success so far e.g. in spite of Washington's insistent nudging in the past two years, Tokyo and Seoul have been reluctant to strengthen their bilateral military and economic ties. But China's leadership didn't stay idle as the neocon and "liberal hawks" of D.C.⁵ deployed rather clumsily their encirclement strategy: during his keynote speech at the Boao Forum (known in Asia as the "Chinese Davos") held in the spring of 2014, Chinese Premier Li Keqiang argued that "the international [financial and political] architecture faces new adjustments... [and since] the global recovery has been a slow and difficult process and growth remains lackluster, China is ready to intensify consultations with relevant parties in and outside Asia on the preparations for the Asian Infrastructure



M. NICOLAS J. FIRZLI IS THE COFOUNDER AND MANAGING DIRECTOR OF THE WORLD PENSIONS COUNCIL (WPC), a Paris-based think-tank focused on pension research and financial law. Mr. Firzli is also Advisory Board Member to the World Bank Global Infrastructure Facility (GIF), a collaborative co-investment framework focusing on emerging and frontier markets. A statistician by training, Mr. Firzli has more than 15 years of capital market research and institutional asset management experience, focusing on Canadian, Asian and MENA area pension funds, as well as sovereign wealth funds, central banks and supranational organizations. A graduate of McGill University (Statistics & Economics) and alumnus of the HEC School of Management and the University of Paris Law School (LL.M.), Mr. Firzli conducted research at the University of Louvain (UCL) Doctoral School of Economics and Management.



Chinese Premier Li Keqiang: "China is ready to intensify consultations with relevant parties in and outside Asia on the preparations for the Asian Infrastructure Investment Bank".

More recently, other traditional US allies had to cope with the consequences of the Joint Comprehensive Plan of Action (July 2015) known in America as the "Iran Nuclear Deal": Israel and Saudi Arabia were seemingly left hanging out to dry.

Investment Bank (AIIB)⁶. It was later announced that the bulk of AIIB's \$100bn startup capital would initially come from the Chinese government, its leading co-founder and largest shareholder.

INFRA STEPPING UP GROWTH IN EMERGING MARKETS

What was viewed until then as a vague political PR stunt used by some in Beijing to vent their frustration at the established financial order suddenly became real. As Asia (excluding China) will need up to \$900bn in infrastructure investments annually in the next 10 years (which means there's a 50% shortfall in infrastructure spending in the continent), many of the heads of state attending the Boao Forum gladly expressed their interest to join this new international financial institution focusing solely on "real

assets" and infrastructure-driven economic growth. Some hawkish elements within the Obama administration viewed this as an unacceptable challenge to the IMF and World Bank, the Washington-based twin pillars of the sacrosanct "Bretton Woods system" and lobbied actively against Beijing's project, with some initial success: until March 2015, nearly a year after Li Keqiang's announcement, Beijing was only able to attract a handful of Asian and Middle-Eastern "founding member-states", in spite of World Bank Group President Jim Yong Kim's non-obstructive, pragmatic position on the issue⁷.

And then, on 16 March 2015, the UK seemingly broke from the G7 pack and announced it would join the AIIB⁸. France, Germany, Italy, Australia, Russia, South Korea and Israel soon followed suit – with only Wash-

ington and Tokyo remaining outside the new multilateral bank. The AIIB was finally established in Beijing in July 2015, precisely when China was entering an unprecedented monetary and financial crisis, which has since spread to most neighbouring countries, threatening, to plunge Asia and the global economy into recession... Will Beijing have enough financial staying power to turn the AIIB into a major supranational organisation? The answer is: probably yes. The countercyclical qualities of infrastructure spending are ideal to shore up economic growth, especially in developing nations with sub-par transportation, energy, communication and healthcare networks that need to be upgraded – or simply built from scratch. Beyond financing, China can bring a wealth of technical expertise in the fields of civil engineering, construction and

► town-planning, while specialized investment banks, rating agencies and asset management companies in London, Sidney and Toronto vie for a share of what will become by 2020 the world's biggest infrastructure market.

China and the AIIB can play a positive part: acting as anchor investors, long-term financiers, lead-structurers and deal makers across Asia and beyond, thus lowering the perceived country risk exposure of Northern Hemisphere institutional investors who wish to have a skin in the infra game and, simultaneously, help less

developed countries stand on their own two feet. Ideally, as argued by World Bank Group President Jim Yong Kim, this will happen with the AIIB standing alongside older, more established supranational lenders in the West, for "the need for new investments in infrastructure is massive [...] our competition is poverty, our enemy is lack of economic growth [...] we have actually no choice but to welcome any new entrants, because every new entrant will help us battle poverty and [...] share prosperity."⁷ ■

(1) Tocqueville contrasts the productive zeal of the Anglo-American "citizen-pioneer" (who can accomplish great things for his country precisely because he's motivated by personal interest) to the supposed servility of the dull Russian-Asian "soldier-servant": Tocqueville, Alexis Henri CM Clérel. *De la démocratie en Amérique*. 1836, pp. 413-414

(2) Firzli, M. Nicolas. "Forecasting the Future: The BRICs and the China Model." *JTW/USAK Research Center* (2011).

(3) Ross, Robert. "The Problem with the Pivot." *Foreign Affairs* 91.6 (2012): 70-82.

(4) Goodison, Nicholas. "London's Place in the Global Securities Market." *International Affairs* (Royal Institute of International Affairs 1944-) (1988): 575-583.

(5) To his credit, President Obama initially tried to distance himself from the bellicose "Scoop Jackson" Democrats who had backed Hillary Clin-

ton and, to a lesser extent, Joe Biden during the 2008 presidential primaries: Henry, Charles P. "Obama'08—Articulate and Clean." *The Black Scholar* 38.1 (2008): pp. 3-16.

(6) Full text of Li Keqiang's speech at opening ceremony of Boao Forum, Xinhua, 14 April 2014 http://news.xinhuanet.com/english/china/2014-04/10/c_133253231.htm

(7) Transcript of Press Conference with World Bank Group President Jim Yong Kim and IFC EVP and CEO Jin-Yong Cai in Beijing, July 8, 2014

<http://www.worldbank.org/en/news/speech/2014/07/08/press-conference-world-bank-group-president-jim-yong-kim-ifc-ceo-jin-yong-cai-beijing>

(8) Brown, Kerry. "The UK Shows Leadership, and Strategic Clarity, in Joining AIIB." <https://www.chathamhouse.org/expert/comment/17261>

VOTRE COMMISSAIRE AUX COMPTES PLUS QU'UN CONTROLEUR, UN CONSEIL

La mission du Commissaire aux comptes ne se limite pas à la certification de vos comptes annuels. Le Commissaire aux comptes est un partenaire qui vous assiste et vous conseille sur tous les sujets stratégiques de l'entreprise: évaluation, fusion-acquisition, comptabilité, fiscalité et droit social.

Depuis plus de 30 ans le cabinet AUDITEC accompagne et apporte son expertise à plus de 200 entreprises en Ile-de-France.

www.auditec-paris.fr
contact: veronique@auditec-paris.fr
21, bd Poissonnière - 75002 Paris

