

## Asian development to the fore



behind the headlines by **Bunn Nagara**



*Hungry for development: In 2013, President Xi Jinping proposed a new development bank, Asian Infrastructure Investment Bank. One year later, 22 Asian countries had signed up, including all 10 Asean countries*

***Asia's need for better infrastructure and more development is too important to be held to ransom by outdated big power politics and petty posturing.***

FOR many observers, the US "pivot" (later renamed "rebalancing") to the Asia-Pacific was classic Obama: the rhetorical flourish was more dramatic than the policy substance.

In the second half of its first term, the Obama administration sought to assign two-thirds of its military assets to the Asia-Pacific theatre, up from the standard half from the even split between the Pacific and the Atlantic.

By the middle of its second term, officials were struggling to maintain a semblance of a policy largely left to coast under its steadily diminishing momentum. US foreign policy, and by extension US defence policy, appeared distracted by other concerns.

The State Department and the Pentagon seemed consumed at once by the Syrian debacle, Iraq's instability, rising terrorism everywhere, civil war in Ukraine, Europe's problems with Russia, Iran's nuclear programme and an uppity Israel.

Then there were the ever-present budgetary constraints. Deploying another 16% of military assets to the Asia-Pacific, from half to two-thirds, seemed hardly noticeable or achievable.

Meanwhile, officials were anxious to insist that the rebalancing had nothing to do with the rise of China and its growing assertiveness in the region. It was, they said, part of efforts to preserve US strategic interests.

Whatever the choice of words, and however implicit China may be as motivation, rebalancing was fast becoming history. By March last year, a Pentagon official admitted it was going nowhere.

However, the Obama administration's gift of verbalising policy intent made US intentions clear enough.

President Obama had famously said the US should be writing trade rules in the Asia-Pacific rather than let China do it.

Thus, the Trans-Pacific Partnership, a trade pact with controversial demands that swiftly became synonymous with US trade preferences. But China had not been idle either.

In 2013, President Xi Jinping proposed a new development bank, the Asian Infrastructure Investment Bank (AIIB). One year later, 22 Asian countries had signed up, including all 10 Asean countries.

In Asia, the world's most promising continent for rapid economic growth, infrastructure needs for development are peaking. The IMF, World Bank and Asian Development Bank (ADB) can serve only a fraction of its needs: between 2010 and 2020 alone, some RM30tril is needed.

China set a deadline of March 31 this year for countries around the world to sign up as Prospective Founding Members (PFMs) before operations begin later in 2015. China would provide the biggest contribution to the authorised capital of US\$100bil (RM363.49bil) and initial subscribed capital of US\$50bil (RM181.75bil).

The US immediately saw this as a game-changer challenge to its dominance in global lending. For decades, it has controlled the World Bank, and through its European allies, the IMF and through its ally Japan, the ADB.

These institutions have been known to set tough conditions on debtor countries that may not serve domestic aspirations or national interests. A cash-rich China also felt it remained under-represented in these institutions even after becoming a leading global economy.

Washington had hoped, even expected, that its allies and friends would stay away from the AIIB as a rival institution. But like its pivot or rebalancing strategy, that hope steadily faded.

In Europe, Britain as the closest US ally was the first to sign up to the AIIB early last month. Soon, other major European economies like France, Germany and Italy followed, as did all the Scandinavian countries.

Washington then quietly pressured Japan, South Korea and Australia to stay away. But Seoul and Canberra signed up anyway. By then, the US had started to soften its stand, denying that it had ever pressured any country to stay away. It was only unsure if the AIIB would adhere to best practices in international lending.

Then, other US allies like Taiwan and Israel also signed up. The US was becoming increasingly isolated, with only Japan as the other major economy for company.

But not for long, perhaps. Last Monday, Japan's ambassador to China, Masato Kitera, said in a Financial Times (FT) interview that Japan would join the AIIB as well, probably around June.

That came as a bombshell to the conservative Japanese government. It would seem too much of a betrayal of yet another US ally, the final one being the "unkindest cut of all".

The next day, on the deadline for countries to sign up as PFMs for the AIIB, Tokyo denied that Ambassador Kitera ever said such a thing. Chief Cabinet Secretary Yoshihide Suga said Japan had no immediate plans to join the AIIB.

Besides being a US ally, Japan was also wary of the prospect of the AIIB undercutting the ADB.

Whatever the actual chances of Japan joining the AIIB, Tokyo would want to underplay it as much as possible.

Like the US, Japan said it was reluctant to sign up because of uncertainty over the AIIB's standards. But countries such as Britain and Singapore that have joined said the best way to ensure high standards was to get on board and be part of the decision-making process.

To be part of that process, it was necessary to sign up early before the big decisions were made. The terms and conditions of lending and borrowing have still to be firmed up as dozens of countries including giants like India and Russia are already in.

The FT report also revealed that Japanese business leaders were pressuring their government to join the AIIB. Mitsubishi bosses, for example, had expressed confidence in Jin Liqun, a former senior ADB official who will head the AIIB.

On the deadline last Tuesday, China announced that 30 countries had been admitted as PFMs. More than a dozen others were in the queue.

Then a flood of criticisms and denunciations of the stubborn US position came, mostly from within the US itself. Analysts and commentators, including in *Forbes* and *The Economist*, said the US administration had miscalculated badly in staying out, only damaging US long-term interests in East Asia and the Pacific.

Former US Secretary of State Madeleine Albright also condemned the US position, lamenting the way Washington had scored another own goal by rebuffing the AIIB. The US had placed itself behind the curve in changes in the Asia-Pacific rather than stay at the leading edge.

If and when Japan finally signs up, the US may have to be resigned to becoming a part of the AIIB. But as a latecomer, it may be limited to playing only a bit part such as an observer rather than sit at the main table.

China has long regretted the US fixation with what it calls a Cold War “them against us” bipolar mentality that frustrates progress on many fronts. For the countries of Asia hungry for more development, progress must not be held hostage to big power rivalry.

Ultimately, any rivalry between the US and China today is not over political ideology but economic ideology: the Washington Consensus of free trade rhetoric where the state and private industry are at odds with each other versus the emerging Beijing Consensus of close public-private partnerships that have worked so well for so much of Asia already.

US opposition to a proven formula for Asia is most unlikely to win friends and supporters anywhere, least of all in Asia.

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