CHINA AND INTERNATIONAL PUBLIC GOODS (II): ITS CREATION OF NEW INSTITUTIONS

WU Xiaoping & LYE Liang Fook

EAI Background Brief No. 1182

Date of Publication: 19 October 2016

Executive Summary

1. Since the start of the 21st century, China has begun to produce its own international public goods (IPGs) other than merely participating in existing international organisations.

2. China's first IPG is the Shanghai Cooperation Organisation (SCO) formed in 2001 that bears a strong China imprint. For one, it is named after a famous Chinese city.

3. Beijing hosts the SCO secretariat and funds its entire operations. China also contributes 24% of the SCO budget as the largest contributor. The SCO further subscribes to China's foreign policy principles of a respect for member states' sovereignty, development path and non-interference in each other's internal affairs.

4. Equally significant, the SCO has adopted China's "Three Evils" terminology that linked terrorism with separatism and extremism to provide a common platform for cooperation among member states.

5. However, within the SCO, China has to contend with Russia's ambitions. Initiatives like the SCO Development Bank, proposed by China several years ago, have stalled due to Russia's concern that China will expand its influence in Central Asia through such an initiative.

6. China's second IPG is the Asian Infrastructure Investment Bank (AIIB) that started on a modest note with 20 odd countries. Its membership rose to 57 after the United Kingdom broke ranks with the West with its participation. By end 2016, the AIIB expects to have around 100 members.

7. The AIIB is the first multilateral development bank that does not include the United States and Japan. China owns 30% of the bank and has a voting share of 26%, giving it a dominant role in the bank. This has bred concerns that the bank will not play by existing rules and practices.

8. To assuage such concerns, the AIIB has co-financed its first batch of loans with established multilateral development banks such as the Asian Development Bank, World Bank and European Bank for Reconstruction and Development.

9. China has initiated or participated in other initiatives like the China-ASEAN Interbank Association, China-Eurasia Economic Cooperation Fund, Silk Road Fund and New Development Bank. None of these initiatives have attained the same level of public interest and international influence as that of the AIIB.

10. With China much more active on the international stage including in the provision of IPGs, it will come under international scrutiny in terms of how it conducts itself. The world will be watching whether China can adhere to its pledge that it will not be a world hegemon.

11. The success of the AIIB will affect how the more established multilateral development banks are run. In this sense, China can shape the world order even more to its advantage.