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WORLD NEWS

# China Forgoes Veto Power at New Bank to Win Key European Nations' Support

U.S. is concerned new bank would be an instrument of Beijing's foreign policy



Jin Liqun, picked by Beijing to set up the bank, has been lining up retired World Bank staffers to work out governance issues. PHOTO: EUROPEAN PRESSPHOTO AGENCY

By **LINGLING WEI** in Beijing and **BOB DAVIS** in Washington

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China has offered to forgo veto power at a new Beijing-led development bank, in a proposal that helped attract European countries to break with Washington and line up as founding members.

Chinese negotiators presented the no-veto position to some of the U.S.'s staunchest allies in Europe in the past few weeks, according to officials from China and Europe involved in negotiations to set up the bank. The offer proved critical in getting the U.K., France, Germany and Italy to join Beijing's Asian Infrastructure Investment Bank, these people said.

In proposing that no single country dictate decision-making at the new bank, Beijing is making a sharp departure from the long-standing practice at U.S.-backed international lenders such as the International Monetary Fund. The U.S. has a lock on some big decisions at the IMF despite holding less than 20% of its voting shares, a structure that has drawn complaints from the rest of the world.

Negotiations are still taking place over how the bank will be run and how its board will be structured. Beijing still is likely to have the upper hand, even without veto power, over major decisions, said people involved in the discussions. That is likely to fuel concerns—expressed by the U.S., India and others—that the bank will ultimately be a tool of Chinese foreign policy.

The progress China has made so far marks a rare victory for Beijing on the world stage, officials from both inside and outside China said, and the careful planning by Beijing is making the new bank a more serious challenge to U.S. dominance of the international economic system in place since the end of World War II.

“China is playing the long game effectively,” said Cornell University economist Eswar Prasad, a former senior China official at the IMF. “They are in absolutely no rush. They know other countries will come to them.”

Beyond giving up a veto, Beijing is also trying to address concerns from the U.S. and elsewhere about the institution's transparency and governance.

Jin Liqun, a Chinese official picked by Beijing to set up the bank, has been lining up retired World Bank staffers in Washington to help them work out governance issues and to build up the new bank's credibility with Western countries. One of his first recruits is Natalie Lichtenstein, a former World Bank lawyer. Ms. Lichtenstein declined to comment on her role at the new China-led bank.

Mr. Jin, interim chief of the new bank, said over the weekend that more than 35 countries will join as the bank's founding members by the end of this month. South Korea and Australia, U.S. allies in the Asia-Pacific region, are expected to come on board by then, according to Chinese officials involved in the effort.

The Obama administration, with little leverage over the Chinese-led bank, is now proposing that the new entity cooperate in joint projects with Washington-backed institutions such as the World Bank, which use U.S.-approved rules.

"We will continue to engage with China and other countries to encourage the new institution to meet the high standards of the existing multilateral financial institutions," Treasury Deputy Assistant Secretary Alexia Latortue said.

The new bank is on track to reach its target of \$100 billion in registered capital, up from the \$50 billion initially announced and that China is providing, according to Chinese and Western officials.

Japan, meanwhile, has maintained a cautious stance about taking part in the bank right away, Japanese officials said, though Tokyo hasn't ruled out the possibility.

Beijing's painstaking planning underscores the stakes for Chinese leaders as they try to chart a bigger role for China in world affairs. Just as the World Bank and the IMF has carried Washington's influence to far-flung regions in the past six decades, the new bank has the prospect of doing the same for Beijing, according to Chinese and Western officials.

President Xi Jinping proposed the new bank in late 2013 to finance infrastructure projects in Asia, where need far outstrips funds provided by the IMF, the World Bank and the Asian Development Bank. Beijing estimates that between now and 2020 about \$730 billion would be needed annually to fund infrastructure spending in Asia.

Over the past year, however, the U.S. has urged its allies not to sign up for the bank, saying it would be an instrument of Beijing's foreign policy and that without proper governing rules it could contribute to debt and corruption in borrowing nations.

China has whittled away at the U.S. arguments by convincing Washington's allies that it is serious about meeting global standards for development banks and

giving Western firms the opportunity to get involved in new infrastructure projects, according to the Chinese and Western officials.

“China won’t bully other members but will work together with them to reach consensus in all the decisions we make,” said Mr. Jin, the Chinese official setting up the bank, at a gathering of international business and political leaders on Sunday. “China won’t brandish its majority shareholder status,” he said.

At the same time, the Obama administration has been unable to get Congress to pass additional funding for the IMF, leaving on hold a revision of voting rights that would give China and other emerging economies more of a say in decision-making. The lack of progress by the U.S. over the IMF has given China an opening to recruit members to its new bank, development experts said. “We have made a complete and total hash of this,” said Ted Truman, a former Obama Treasury official who is now a scholar at the Peterson Institute for International Economics.

Putting together a governance structure absent a veto helps China, people involved in discussions with Beijing said, because it blunts criticism that the bank would be a Chinese preserve used to funnel construction contracts to firms battered by the real-estate downturn within China.

“It’s a smart play to encourage other major economies to join,” said David Dollar, the U.S. Treasury’s former representative in Beijing, who is now a scholar at the Brookings Institution in Washington.

The next formal meeting of chief negotiators is set for the end of this month in Kazakhstan. Beijing hopes to put together the Articles of Agreement—the basic rules governing the bank—by the end of June and to get the bank up and running by the end of this year.

Chief among the unresolved issues is how the voting shares will be split among the bank’s founding members. One option is for the bank’s 27 or so Asian members to have 75% of the voting shares, with the right of each of those members potentially depending on the size of its gross domestic product. The remaining 25% of the voting shares would then go to non-Asian members, according to those individuals.

With such a split and voting shares potentially awarded according to GDP, Beijing could round up a majority vote without much difficulty, one of the

individuals said.

Another pending issue is how to structure the board of directors at the new bank. In the World Bank and the IMF, countries are represented by resident directors who are actively involved in the institutions and vote on new projects, programs and policies. Those representatives act as a check on management. The U.S. has been pushing the Chinese to adopt the same structure, according to those involved in the discussions, but Beijing is resisting. Instead, it wants the bank's management, which will likely mean Chinese officials, to have a more powerful position.

"I can understand why [the U.S.] or other advanced countries prefer the resident board in this case," said Mr. Truman, the former Treasury official. "We do not trust the likely management."

Other development experts say resident boards are anachronistic and slow down decision-making. The World Bank is starting a "a fundamental review" of how its governed, said Scott Morris, a former Obama Treasury official who is now a researcher at the Center for Global Development, a Washington think tank.

"To say that [the new Asian bank] should aim for the 'highest standards' or 'best practices' is kind of an empty target," he said in an email response.

—Tatsuo Ito in Tokyo  
contributed to this article.

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