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In defence of the Asian Infrastructure Investment Bank

Joseph Stiglitz

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The International Monetary Fund and the World Bank are holding annual meetings, but the big news in global economic governance will not be made in Washington DC in the coming days. Indeed, that news was made last month, when the United Kingdom, Germany, France, and Italy joined more than 30 other countries as founding members of the Asian Infrastructure Investment Bank (AIIB). The $50bn AIIB, launched by China, will help meet Asia's enormous infrastructure needs, which are well beyond the capacity of today's institutional arrangements to finance.

One would have thought that the AIIB's launch, and the decision of so many governments to support it, would be a cause for universal celebration. And for the IMF, the World Bank, and many others, it was. But, puzzlingly, wealthy European countries' decision to join provoked the ire of American officials. Indeed, one unnamed American source accused the UK of "constant accommodation" of China. Covertly, the United States put pressure on countries around the world to stay away.

In fact, America's opposition to the AIIB is inconsistent with its stated economic priorities in Asia. Sadly, it seems to be another case of America's insecurity about its global influence trumping its idealistic rhetoric - this time possibly undermining an important opportunity to strengthen Asia's developing economies.

China itself is a testament to the extent to which infrastructure investment can contribute to development. Last month, I visited formerly remote areas of the country that are now prosperous as a result of the connectivity - and thus the freer flow of people, goods, and ideas - that such investments have delivered.

The AIIB would bring similar benefits to other parts of Asia, which deepens the irony of US opposition. President Barack Obama's administration is championing the virtues of trade; but, in developing countries, lack of infrastructure is a far more serious barrier to trade than tariffs.

There is a further major global advantage to a fund like the AIIB: right now, the world suffers from insufficient aggregate demand. Financial markets have proven unequal to the task of recycling savings from places where incomes exceed consumption to places where investment is needed.

When he was chair of the US Federal Reserve, Ben Bernanke mistakenly described the problem as a "global saving glut." But in a world with such huge infrastructure needs, the problem is not a surplus of savings or a deficiency of good investment opportunities. The problem is a financial system that has excelled at enabling market manipulation, speculation, and insider trading, but has failed at its core task: intermediating savings and investment on a global scale. That is why the AIIB could bring a small but badly needed boost to global aggregate demand.

So we should welcome China's initiative to multilateralise the flow of funds. Indeed, it replicates American policy in the period following the second world war, when the World Bank was founded to multilaterise development funds that were overwhelmingly coming from the US (a move that also helped to create a cadre of first-class international civil servants and development professionals).

The World Bank's assistance was sometimes overburdened by prevailing ideology; for example, the free-market Washington Consensus policies foisted on recipients actually led to deindustrialization and declining income in Sub-Saharan Africa. Nonetheless, US assistance was, overall, far more effective than it would have been had it not been multilateralised. Had these resources been channeled through America's own aid agency, policymaking would have been subject to the vagaries of development thinking (or the absence of reflection) from one administration to another.

New attempts to multilateralise flows of assistance (including the Brics countries' launch of the New Development Bank last July) are similarly likely to contribute significantly to global development. Some years ago, the Asian Development Bank defended the virtues of competitive pluralism. The AIIB offers a chance to test that idea in development finance itself.

Perhaps America's opposition to the AIIB is an example of an economic phenomenon that I have often observed: firms want greater competition everywhere except in their own industry. This position has already exacted a heavy price: had there been a more competitive marketplace of ideas, the flawed Washington Consensus might never have become a consensus at all.

America's opposition to the AIIB is not unprecedented; in fact, it is akin to the successful US opposition to Japan's generous New Miyazawa Initiative of the late 1990s, which offered $80bn to help countries in the East Asian crisis. Then, as now, it was not as if the US were offering an alternative source of funding. It simply wanted hegemony. In an increasingly multipolar world, it wanted to remain the G-1. The lack of money, combined with America's insistence on flawed ideas about how to respond to the crisis, caused the downturn to be far deeper and longer than it should have been.

That said, US opposition to AIIB is harder to fathom, given that infrastructure policy is much less subject to the influence of ideology and special interests than other policymaking areas, such as those dominated by the US at the World Bank. Moreover, the need for environmental and social safeguards in infrastructure investment is more likely to be addressed effectively within a multilateral framework.

The UK, France, Italy, Germany, and the others who have decided to join the AIIB should be congratulated. One hopes that other countries, both in Europe and Asia, will join as well, helping to fulfill the ambition that infrastructure improvements can raise living standards in other parts of the region, as they have already done in China.

Joseph E. Stiglitz, a Nobel laureate in economics, is University Professor at Columbia University. His most recent book, co-authored with Bruce Greenwald, is Creating a Learning Society: A New Approach to Growth, Development, and Social Progress.