Chapter 4
The Superficial Success of the Development Assistance Committee: Emerging Donors and the Revival of Economic Statecraft

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Abstract This chapter examined how the increasing presence of emerging donors affects the Development Assistance Committee (DAC) regime and the countries in which it is implemented. The DAC, as an Official Development Assistance regime (ODA), has subsumed emerging donors and enlarged the scope of its application to develop itself by keeping its fundamental principles. This means the DAC regime has developed. Meanwhile, many DAC countries are beginning to increase their commercial interests through development assistance as emerging donors. After China announced its plan to establish the Asian Infrastructure Investment Bank (AIIB), most DAC countries, including the UK, successively joined it. The DAC has a long tradition of encouraging its members to provide technical assistance for poverty reduction and cannot easily change its direction. Therefore, the DAC countries have tried to deal with their changing needs individually, and actually, the DAC has been undermined. Recipients welcome this trend of donors to provide the loans for infrastructure construction. The trend of preferring commercial-based activities will continue for a while. Meanwhile, commercial-based activities cannot meet the needs of poverty reduction and cause risks. Where many donors are prioritizing their commercial interests over poverty reduction in the developing countries, we may leave serious poverty problems behind and spread human rights violations and environmental destruction. Thus, global governance of international development cooperation is essential.

Keywords DAC · ODA · Emerging donors · China · AIIB

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4.1 Introduction

In the 2010s, emerging donors began to increase their presence. Emerging donors provide development assistance based on their own diplomatic policies and aid philosophy, and their development assistance policies do not conform to the basic principles shared by Development Assistance Committee (DAC) countries. What effect will the increasing presence of emerging donors have on the DAC regime formed by Western developed countries during the Cold War period and the DAC countries?

Previous studies present two conflicting views. One is that emerging donors can alter the DAC regime, and the other is that emerging donors cannot alter it. The former takes as evidence the fact that emerging donors altered the fundamental rule of DAC at the Busan High Level Forum (HLF) (Kindornay and Samy 2013). The latter notes that emerging donors have started to comply with DAC rules and to join DAC (Dreher et al. 2013). However, both are mainly looking to the influence of emerging countries on DAC rules.

This article considers not only the impact of emerging countries on DAC rules but also the impact of the rule change on DAC countries. How do DAC countries respond to rule changes? What kind of relationship did they have tried to build with emerging donors? The actions of each DAC country embody its foreign policy itself and better reflect the future of DAC.

In this article, I first describe the formation and development of DAC to clarify what kind of regime the DAC is. Next, I show that DAC has changed its fundamental principles so to reflect the development cooperation of emerging donors. I also argue that some DAC countries followed the new DAC rules after the change. Furthermore, I show that the majority of DAC countries joined the new regime when emerging donors declared its creation. Finally, I present the consequences for the emerging donors and discuss the prospects of international development cooperation governance and the tasks to be faced in the future.

4.2 DAC

4.2.1 Western Donors' Club

After the Second World War, we recognized the needs of development flows to developing countries, from the viewpoint of interdependence and humanity. However, neither the World Bank (WB) nor the United Nations (UN) could provide appropriate flows for developing countries. The WB only provided loans on a commercial basis, which developing countries could use only with difficulty. The UN reflected Soviet influence, so the United States (US) avoided using it as its main development aid organization. The US had to embark on development aid itself, integrating development aid into military aid in 1951, as the tensions in the US–Soviet relationship increased. Naturally, military aid, which was provided from a strategic point of view, had weak effects on economic development. When the Soviet Union and China began development aid in the mid-1950s, the US also realized the need to improve the quality of its development aid. In 1957, the USA established the Development Loan Fund to be responsible for development finance for developing countries. At the same time, however, the US balance of payments turned into a deficit, which caused the US to recognize that it alone could not meet the needs of development flows. Therefore, the US requested that Western countries share the burden of development flows (Hook 1995: 22–25; Wood 1986: 70–72, 1996).

In restructuring the Organization for European Economic Cooperation (OEEC), the US tried to encourage Western countries to use it to increase their flows of development assistance. Originally, in 1948, the OEEC had been established to receive the economic assistance of the Marshall Plan for 16 European countries. After with the economic recovery of the target European countries, the OEEC were reorganized into an organization of Western countries used to adjust their economic policy. European countries had come to believe that new organizations should contribute not only to economic development through the promotion of trade among Western countries but also to economic development in developing countries (US State 1958–1960: VII, Doc 83). The OEEC, which European countries supported, could be a means to encourage European countries to increase their development flows (US State 1958–1960: IV, Doc 188, 189). The International Development Association (IDA) of the WB could not provide all the long-term loans and grants that developing countries needed (US State 1958–1960: VII, Doc 85). Developing countries needed for additional development flows on a bilateral basis rather than on a multilateral basis (US State 1958–1960: VII, Doc 97).

In 1960, US Secretary of State D. Douglas Dillon launched the Development Assistance Group (DAG) as a provisional organization, because it would take time until a successor organization of the OEEC could be established. The DAG was an informal organization designed to increase development flows to developing countries and had no full-time staff. The original member countries were Belgium, Canada, France, Germany, Italy, Portugal, the UK, the US, the EEC Commission, Japan, and the Netherlands. Dillon emphasized that the DAG had a limited scope, dealing with only bilateral development aid to elicit cooperation from European countries (US State 1958–1960: VII, Doc 105). He succeeded in persuading the European countries to accept that the DAG would be a forum that would consider ways to increase development flows and to improve the effectiveness of the flows (US State 1958–1960: VII, Doc 106).

On the initiative of US Secretary of State George Ball, the document “Resolution of the Common Aid Effort” was adopted, whose goal was to improve the quality and quantity of development aid as a common objective. The resolution stated that DAG members agreed to recommend to members that it should be a common objective to secure an expansion of the aggregate volume of resources made available to developing countries and to improve their effectiveness, that, while private and public finance extended on commercial terms is valuable and should be encouraged, the needs of some of the developing countries at the present time were such that the common aid effort should provide for expanded assistance in the form of grants or loans on favorable terms, including long maturities where this is justified, to prevent the burden of external debt from becoming too heavy (OECD 2006: 10). In 1961, when the US and Canada joined the OEEC and it was reorganized into the OECD (the Organization for Economic Co-operation and Development), the DAG was renamed the DAC, and it became affiliated with the OECD and officially encouraged OECD members to increase their development assistance.

However, the DAC was only a forum for conducting survey on the development assistance of its members and making policy recommendations and consultations based on the results of its survey of its members. For this reason, DAC could not easily give directions to member countries on how to expand the amount of development assistance and improve their effectiveness. They considered development assistance as a means of foreign policy and used it to achieve their objectives. For example, the US provided development assistance to the countries that had highly strategic importance and supported infrastructure construction such as roads and dams in developing countries to contribute to the overseas expansion of US companies. The UK and France allocated development assistance to former colonial countries to maintain connection with those countries. Japan intensively provided development loans to infrastructure construction in neighboring Asian countries, to increase their own commercial interests.

4.2.2 Official Development Assistance Regime

The DAC, which was established as a forum for Western countries to exchange views of development assistance, gradually began to demonstrate a character as regime. Specifically, the DAC presented targets and principles for high-quality development assistance and evaluated performance to regulate member countries' behaviors and improve the quality and quantity of development assistance.

In 1969, Official Development Assistance (ODA) was defined as indicating good quality development assistance. The DAC adopted the concept of ODA, separating ODA from "Other Official Flows" (OECD 2006: 15). In 1972, the DAC agreed on a firmer definition of ODA, and this definition is still in force today. The DAC defined ODA as flows to developing countries and multilateral institutions provided by official agencies, including state and local governments, or by their executive agencies, each transaction of which meets the following test: a) it is administered with the promotion of the economic development and welfare of developing countries as its main objective, and b) it is concessional in character and contains a grant element of at least 25% (OECD 2006: 16). The definition was based on the idea that grants are more conducive for the long-term economic development of aid recipients. Among the benefits of grants is that they do not incur long-term debt obligations in poor states. Pressure for greater grant aid intensified in the 1990s after many developing countries could not repay the low-interest loans they had received from ODA donors, the WB, and regional banks (Hook and Rumsey 2016: 64).

In 1974, the DAC countries agreed to a "Memorandum of Understanding on Untying of Bilateral Development Loans in Favor of Procurement in Developing Countries" (OECD 2006: 17). The DAC adopted untying as a new measure in the memorandum. This concept measures the extent to which aid transfers are tied to donor goods and services. Whereas donors benefit materially from giving development assistance, tying ODA funds to their own aid agencies and private firms, aid recipients seek autonomy in procuring the products and services afforded by ODA transfers. Recipients are keenly aware that untied aid provides economic efficiencies. "It has been clearly documented that tied aid raises the costs of goods and services by 15–30% and by as much as 40% or more for food aid" (Clay et al. 2008:1; Hook and Rumsey 2016: 65). Agreement to this memorandum means that the DAC had taken a drastic measure to the serious problem of development assistance.

In 1977, the DAC High Level Meeting adopted a "Statement on Development Cooperation for Economic Growth and Meeting Basic Human Needs (BHN)" (OECD 2006: 18). In the 1960s, the DAC member countries worked to encourage economic growth and industrialization in development assistance and did not emphasize the alleviation of poverty nor meeting the BHN of people in developing countries. In the 1970s, many donor countries, UN agencies, the WB, and others, started to recognize the importance of the idea and adopted it as their guiding principle. The DAC also adopted this as a target and encouraged member countries to meet BHN in their development assistance.

In 1996, the DAC High Level Meeting adopted as its new development strategy "Shaping the 21st Century: The Contribution of Development Cooperation." The goals of this strategy are a reduction by one-half in the percentage of people living in extreme poverty by 2015, universal primary education in all countries by 2015, and others (OECD 2006: 26–27). This strategy means that all members should emphasize the sectors of social and administrative infrastructure in ODA.

In 2000, the DAC launched the system Peer Review. This entails periodic reviews of the individual development cooperation efforts of its members. The Secretariat designates members to be reviewed and members to serve as examiners in each given year. The examiners assess the performance of the reviewed to improve the quality and effectiveness of development cooperation policies and systems. The assessment is published in the journal *Peer Review*. The examiners give appreciation of those members who achieved the DAC's targets and comply with the DAC's standards, requiring the members who deviate from the DAC's standards to improve their system and policy. The DAC exerts social pressure on its members to improve the behavior of members who deviate from the DAC's standards (OECD 2006: 30, 2013: 2, 2017a).

In other words, the DAC recognizes that the boundaries of development assistance with commercial activities should be clarified and targets and guidelines should be listed, such as the grant element and the untying status. In addition, the DAC urged its members to improve their development assistance with the main objective of economic growth and increasing the welfare of developing countries. The DAC gradually caused convergence among members in performance.

4.3 Emerging Donors and DAC Standards

4.3.1 Emerging Donors

A large number of states are active as emerging donors. Emerging donors include global giants like China, India, and Brazil; regional powers like South Africa and Saudi Arabia; rapidly industrializing countries like Thailand and Turkey; and former socialist states, such as Russia, Poland, and the Czech Republic. The visibility, presence, and impact of these countries in international development have grown sharply over the last few years (Mawdsley 2012: 1). As a result, they have been the subject of intense interest and analysis as providers of foreign aid and development assistance.

Some emerging donors became members of the DAC. As Table 4.1 shows, Spain, Luxembourg, Portugal, and Greece joined the DAC in the 1990s; Korea joined the DAC in 2010; the Czech Republic, Poland, the Slovak Republic, and Slovenia joined DAC in 2013; the United Arab Emirates joined the DAC in 2014; and Hungary joined the DAC in 2016 (OECD 2016b).

Other emerging donors have not joined the DAC and instead provide development assistance in their own way as non-DAC donors. As Table 4.2 shows, non-DAC donors include 3 OECD non-DAC countries such as Turkey; 15 - non-OECD countries that report to the OECD-DAC, such as Saudi Arabia, Russia, and Bulgaria; and 10 non-OECD countries that do not report to the OECD-DAC, such as Brazil, China, and India. The total amount of development assistance of the 28 non-DAC donors is estimated to reach 34 million dollars. That equals no more

Table 4.1 DAC members (OECD 2016b)

1961	Australia, Belgium, Canada, European Union, France, Germany, Italy, Japan, the Netherlands, Portugal[a], the United Kingdom, the United States
1962	Norway
1963	Denmark
1965	Sweden
1966	Austria
1968	Switzerland
1973	New Zealand
1975	Finland
1985	Ireland
1991	Spain, Portugal[a]
1992	Luxembourg
1999	Greece
2010	Korea
2013	Czech Republic, Iceland, Poland, Slovak Republic, Slovenia
2014	The United Arab Emirates
2016	Hungary

[a]Portugal joined the DAC in 1960, withdrew in 1974, and rejoined in 1991

Table 4.2 Key providers of development cooperation (OECD 2017b Table 33, 33a)

OECD non-DAC	Estonia, Israel, Turkey (3 countries)
Other providers that report to the OECD-DAC	Bulgaria, Croatia, Cyprus, Kazakhstan, Kuwait, Latvia, Liechtenstein, Lithuania, Malta, Romania, Russia, Saudi Arabia, Chinese Taipei, Thailand, Timor Leste (15 countries)
Other providers that do not report to the OECD-DAC	Brazil, Chile, China, Colombia, Costa Rica, India, Indonesia, Mexico, Qatar, South Africa (10 countries)

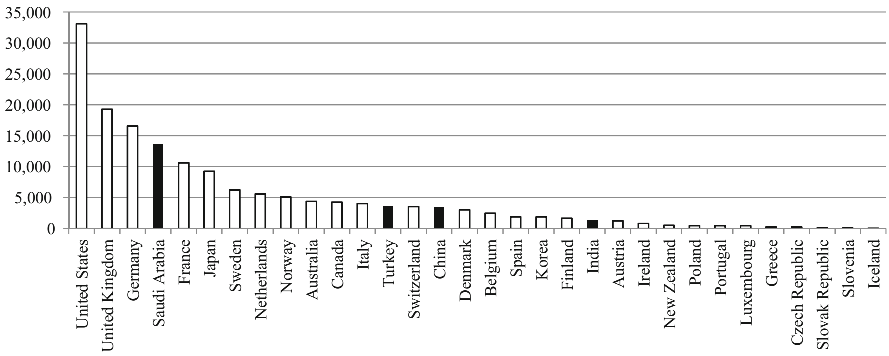

Fig. 4.1 ODA of DAC countries and Concessional Flows of Major non-DAC countries in 2016 (USD million) (OECD 2017b Table 4.1, 33a, 33ae)

than a quarter of the total ODA of DAC countries (OECD 2017b). However, as for country-by-country performance, the presence of individual non-DAC donors cannot be ignored. Figure 4.1 shows that Saudi Arabia comes 4th in the ranking, Turkey 13th, China 15th, and India 21st. The impact of non-DAC donors is obvious at a glance, although we cannot simply compare non-DAC donors with DAC donors because of the different ways of collecting data.

Not surprisingly, most non-DAC donors, especially emerging donors, have tended to keep their distance from the DAC and ignore its rules. This is partly because high administrative costs and hurdles prohibit them from keeping the DAC's rules. It is partly because they doubt DAC rules and hate Western hegemonic ambitions and strategies as well as the dominance of international institutions by Western countries (Mawdsley 2012: 90). This has led to rising concerns among the DAC countries become concerned about the increasing presence of emerging donors.

Among these, concern about China is great. China's aid philosophy contrasts with DAC. The principle of Chinese development cooperation contrasts with that one of the DAC. China bases itself on the principle of equality and mutual benefit in providing development assistance. This principle means that the country providing assistance and the one receiving it are seen as equal partners, with economic development pursued through sharing experience and technology for mutual gain (a "win–win" approach) (Mawdsley 2012: 155; Kobayashi 2007: 131).

On the other hand, DAC supports the aid philosophy of "charity." For DAC countries, wealthy countries should give development assistance to poor countries; lending these countries money and expecting them to repay it is immoral. Thus, development assistance in the form of grants is desirable, and because development assistance is a matter of ethics, the nation providing it cannot expect any reward or compensation (Mawdsley 2012; 152–55; De Haan and Warmerdam 2013: 228). Therefore, the DAC cannot easily accept the principle of equality and mutual benefit, which would lead donors to increase their commercial interest through development assistance.

The DAC also expressed concerns about China's loans for major infrastructure development in Africa and other countries around the world. The DAC is skeptical of development assistance for building infrastructure. China has expanded its loans for large-scale infrastructure to developing countries around the world, especially in Africa. This approach runs counter to the DAC's target for its members of focusing on technical assistance for the social sector. We cannot expect that building infrastructure will improve the standard of living, while it may contribute to the economic growth, of the recipient countries. The DAC prioritizes poverty reduction over economic growth, recommends that its members focus on development assistance for the social sector not economic infrastructure, and has created many rules on principles and the focus areas. China does not provide development assistance on the basis of the DAC's rules.

These preferential loans for building infrastructure have also gathered criticism from DAC countries. The loans are low-interest loans, provided by the Chinese Export-Import Bank, established in 1994. Their interest rates are 2–3% higher than other countries' concessional loans, and repayment periods are short. The grant element of DAC countries' loans is 67.1%, while China's barely exceed 25%, which is extremely low. There are also concerns that preferential loans weaken efforts to provide debt relief to heavily debt-laden countries. In addition, these loans are as a rule "tied" loans, meaning that more than 50% of the materials, equipment, technology, and services for assistance projects must be provided by China. Consequently, labor and materials are not sourced locally, restricting any positive effect on the local economy; this has drawn additional criticism (Watanabe 2013: 104; Zimmerman and Smith 2011: 731–732).

However, it is not only China who is not making poverty reduction a priority like the DAC. Many emerging donors focus on infrastructure, energy provision, and productive capacity intended to enhance growth, rather than working directly on poverty reduction (Mawdsley 2012: 111). They do not draw clear lines between aid, trade, and investment, bringing them together to implement a particular project. These techniques are at odds with mainstream aid norms and practices in which DAC countries separate aid from trade and investment in order not to damage the function of markets nor to pursue self-interest (Mawdsley 2012: 135). Emerging donors can spoil the practices that the DAC has built up over the years.

4.3.2 The DAC's Standards Changed

At the end of 2011, the DAC announced a global relations strategy that aimed to promote participation by non-DAC countries. This strategy's goals were as follows: (1) facilitation of policy discussions and sharing of knowledge, (2) greater awareness and comprehensiveness of DAC's policy-making process and its discussions, and (3) a stronger contributions of the DAC to a more effective development cooperation system. Priority members in this strategy were OECD members that were not DAC countries, OECD accession countries, OECD Key Partners (Brazil, China, India, Indonesia, and South Africa), European Union member states that were not OECD members, and Arab countries and institutions (OECD 2016a).

The DAC has three instruments for the engagement of non-DAC donors, as follows. The first one is policy dialogue with a view to exchanging experience and promoting mutual understanding about shared international goals and how they can be achieved. This was not a simple person-to-person exchange; rather, the DAC allowed non-DAC countries to participate in its policy-making process. Non-DAC OECD member countries were permitted to participate in the DAC's day-to-day affairs, and most are now doing so. Parties with an enhanced agreement with the OECD (Brazil, China, India, Indonesia, and South Africa) and countries that consented to OECD codes (Russia, Columbia, and Latvia) were invited to DAC's annual Senior and High Level Meetings (OECD 2016a, c).

The second instrument is collaboration on management and statistics, to share the DAC's methodologies and guidelines as well as DAC members' experience in these areas. This involved special DAC inspections and seminars, offered by request for countries trying to improve management and statistics. Thus far, Chile, Iceland, Slovenia, the Slovak Republic, Poland, South Korea, and the Czech Republic have undergone these special inspections, while Mexico, Israel, the United Arab Emirates, the Slovak Republic, Turkey, India, and Poland have had seminars. Finally, the third is the analysis of the development cooperation provided by non-DAC countries and related issues (OECD 2016a, d).

These strategies had no small effect. First, as many as 20 non-DAC countries voluntarily began to report information about their development flows to DAC. Second, some emerging donors contacted the DAC office requesting evaluation of their own assistance programs. Third, Mexico and South Africa, contributors to the South–South cooperation, began to participate in the DAC's Peer Review system as observers. Fourth, contributors to the South–South cooperation began to participate in DAC's practical activities such as examining aid for trade and evaluating development (Zimmermann and Smith 2011: 734). Then, in 2013, five countries joined DAC.

The DAC intended to bring non-DAC donors to participation in DAC's political process and daily work, and in doing so, to teach them DAC's models and methods. Consequently, more members came to participate in the DAC.

As emerging donors have increasingly participated in the DAC political process, they have sought to participate in the HLFs, which are the top decision-making body of the DAC. At the 2008 HLF in Accra, the Working Party on Aid Effectiveness (WP-EFF) member categories were expanded to include the following: (1) countries that provide aid, (2) countries that receive aid, (3) countries that both provide and receive aid, (4) international organizations, and (5) civil society organizations (CSOs). The DAC also introduced a North–South joint chairman system; this involves one chairman chosen from a developing country and one from a developed country. The WP-EFF then launched the Advisory Group on Civil Society and Aid Effectiveness, adding CSOs as members, and a working group on South–South cooperation was also established. Consequently, the Accra Agenda was agreed upon by more than 80 developing countries, all OECD countries, approximately 3000 CSOs, emerging donor countries and the UN, as well as international development organizations and private foundations (Kindornay and Samy 2013: 275–276; OECD 2010, 2011: 260).

The DAC cannot help adding the approaches of emerging donors to its basic principles, because the DAC allowed emerging donors to participate in the HLF. In 2011, emerging donors united regionally to demonstrate the superiority of their approaches at the Fourth HLF (HLF4) held in Busan, Korea. Among these movements, the activities of Asian countries deserve special attention. Scholars and experts from China, India, Vietnam, Korea, and Australia discussed important elements of the Asian approach. These Asian countries experienced being simultaneously aid providers and recipients, and they disliked the dichotomy between the two. They focused on sharing their successful experiences with other developing countries and encouraging sustainable development, a sense of ownership among recipient countries and capacity development. Although development cooperation was considered to be related to diplomatic and economic policy goals, they sought almost no conditionality regarding partnerships (OECD 2011: 185). These Asian countries' view that aid is not the sole means of development cooperation is called a result-oriented approach, because it focuses on the results of achieving economic growth.

Then, the Center for Global Development, the UK's Department for International Development (DFID), Norway's Ministry of Foreign Affairs, Sweden's Ministry for Foreign Affairs, Germany's Federal Ministry for Economic Cooperation and Development, and the European Commission held a session aiming to adopt a result-oriented approach to the DAC's principles (OECD 2011: 169). As a result, the DAC included it in the four shared principles—(1) ownership, (2) a focus on results, (3) partnerships, and (4) transparency and shared responsibility—which were proposed at HLF4, located at the core of the agenda (OECD 2012, 2011: 102).

With their participation, the DAC regime was revised to reflect the cooperation of emerging donors in development. We can safely say that the DAC regime has subsumed emerging donors, expanded its scope of application, established new rules, and developed.

4.4 Emerging Donors and the DAC Countries

4.4.1 Changes in ODA

How did DAC countries respond to fundamental changes in the DAC's rules?

Figure 4.2 shows that the total amount of ODA of DAC countries has steadily increased from 1960 to 2015; since 2000, it has drastically increased. The DAC has undoubtedly developed as ODA regime.

Furthermore, Fig. 4.3 shows that the expenditure ratio of social and administrative infrastructure in ODA of total DAC countries has consistently increased. It means that the DAC succeeded in letting the members focus on poverty reduction.

However, regarding charity, the fundamental principle of the DAC, it seems that the DAC countries have tended not to respect it since HLF4 in 2011. Figure 4.4 shows that the grant element, which was created to distinguish ODA from commercial activity, has consistently increased since it was established and reached an average of 97.6% in ODA of DAC countries in 2004–2005, but it decreased to 94.4% in 2014–2015.

In addition, the DAC created untying as a standard for ODA for its members, so that they would not pursue their own commercial interest, but Fig. 4.5 shows that the ratio of untied bilateral ODA to total ODA decreased after the HLF4, in 2011; the ratio was 34.5% in 1985, had steadily increased and reached to 91.8% in 2005, but decreased to 78.1% in 2015.

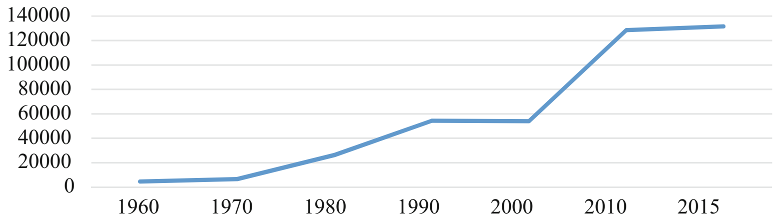

Fig. 4.2 Long-term trends of ODA ($US Million) (OECD 2017b)

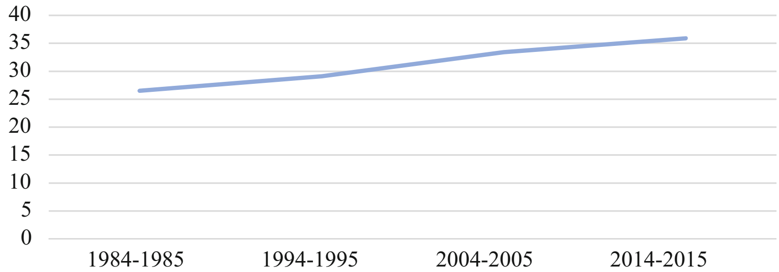

Fig. 4.3 Social and administrative infrastructure of ODA by TOTAL DAC (%) (OECD 2017b)

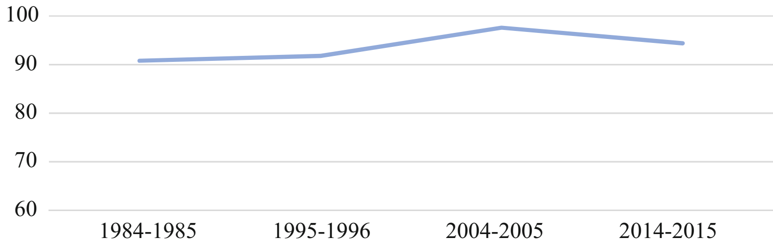

Fig. 4.4 Grant element of total ODA by TOTAL DAC (%) (OECD 2017b)

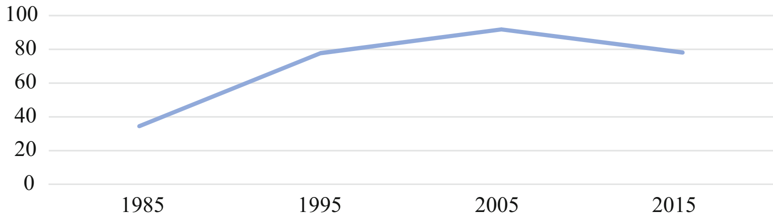

Fig. 4.5 Untied bilateral ODA over total ODA (%) (OECD 2016d)

When we focus on ODA of the individual DAC countries, we can clearly understand that DAC countries have tended to promote commercial interests through ODA in the last few years. Table 4.3 shows to what extent the DAC countries distribute ODA for economic infrastructure: it is clear that the average of total DAC countries decreased from 22.7% in 1994–1995 to 19.0% in 2014–2015. Meanwhile, when we see the expenditure ratio of economic infrastructure of ODA by donor, we find that ten donors—Belgium, Finland, France, Germany, Japan, Luxembourg, Netherlands, New Zealand, Portugal, and Switzerland—increased their ratio by two to three times on average. In particular, Japan, which originally emphasized the development assistance for economic infrastructure, increased from 43.5% in 1994–1995 to 50.9% in 2014–2015. This means that Japan has most clearly embarked on a unique path after emerging donors expanded their presence.

In short, the DAC adopted a result-oriented approach as a fundamental principle to approve the development cooperation of the emerging donors, and furthermore, the DAC countries have also adopted it to their ODA.

4.4.2 Participation in New Regime

In 2013, the Chinese President Xi Jinping declared the establishment of the Asian Infrastructure Investment Bank (AIIB). According to the AIIB's Articles of Agreement, the purpose of the bank is to (1) foster sustainable economic development,

Table 4.3 Economic infrastructure in ODA (%) (OECD 2017b, Table 18)

	1994–1995	2014–2015
Australia	20.9	7.4
Austria	16.0	5.2
Belgium	7.6	8.4
Canada	13.9	4.3
Czech Republic	—	5.2
Denmark	20.6	6.7
Finland	3.8	9.6
France	7.4	24.4
Germany	20.6	31.3
Greece	—	0.0
Iceland	—	12.2
Ireland	8.8	0.9
Italy	11.4	4.1
Japan	43.5	50.9
Korea	60.6	33.1
Luxembourg	5.8	7.5
Netherlands	8.9	11.6
New Zealand	8.6	16.2
Norway	17.0	8.5
Poland	—	2.1
Portugal	6.6	15.0
Slovak Republic	—	1.1
Slovenia	—	0.9
Spain	15.9	2.4
Sweden	11.2	4.3
Switzerland	1.6	5.7
United Kingdom	14.2	10.3
United States	13.2	4.9
Total DAC	22.7	19.0

create wealth, and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors and (2) promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions (AIIB 2017b: 2). In short, the AIIB is a new multilateral financial institution to invest the infrastructure projects in Asia (Weiss 2017: 1).

The AIIB can be expected to alleviate shortages of infrastructure financing in developing countries that will achieve growth. From the early 2000s up to 2030, the world will have to invest US$57–67 trillion in infrastructure, such as roads, ports, power plants, and water facilities. Infrastructure finance requirements in emerging market economies account for 37% of this value (Campanella 2015). Meanwhile, existing multilateral development banks (MDBs) cannot meet the needs of expanding infrastructure financing along with economic growth in developing countries. MDBs initially emphasized infrastructure investment, but, in the 1980s and 1990s, shifted the priority to transferring technology and knowledge. Once the WB directed 70% of its lending to infrastructure in the 1950s and 1960s, but by 1999, infrastructure financing had dwindled to 19% of its lending. The IDB made 70% of its lending to infrastructure projects in 1981, but that figure fell to 10% in 2003. The Asian Development Bank (ADB)'s infrastructure investment declined less dramatically, but until the early 2000s, the trend was downward as well (Humphrey 2015: 3–4; Wang 2017: 114). The AIIB was created to fill the gap between the need and the supply for financing in infrastructure construction of Asian countries (Bai 2017: 102).

However, the existence of the AIIB provokes two main concerns. The first is that it might be a tool of Chinese foreign policy and, in the future, a foothold to establish Chinese hegemony. The AIIB is based in Beijing and headed by Jin Liqun, a former Chinese vice minister of finance, the Chinese sovereign wealth fund chairman, and the vice president of the ADB. China's voting share in the AIIB (28.7%) is substantially larger than that of the second-largest AIIB member country, India (8.3%). The AIIB gives more decision-making authority to regional countries and the largest shareholder, China (Weiss 2017: 1). This can satisfy emerging donors, who expressed dissatisfaction with the executive boards and voting rights of Bretton Woods Institutions not reflecting their growing power and wanted alternative institutions (Huijskens et al. 2017: 1; Strand et al. 2016; Wang 2017: 114). Therefore, it appears that AIIB will increase Chinese influence over international politics and economics (Beeson and Li 2016; Yang 2016; Ren 2016; Peng and Tok 2016).

The second is that AIIB, which provides loans without conditionality, might allow donors to increase their commercial interests and promote human rights violations and environmental destruction by the recipient's governments, which the DAC has carefully prohibited. China is a supreme developing country, with the most consumers and greatest manufacturing capacity of all developing countries, but the Chinese capital market has only had 30 years of development, so it lacks advanced technology and tools (Bai 2017: 102). Therefore, China has been indifferent to the influence of development assistance on environment and society. The AIIB's lending policy, led by China, will enable loans to governments that violate human rights and loans that lead to environmental destruction (Wang 2017: 114; Huijskens et al. 2017: 3). In sum, the AIIB might substantially impair the effects of the existing regime. The DAC countries including the US and Japan have taken a cautious stance toward participation in the AIIB due to these concerns.

However, only the UK recognizes the benefits of strengthening relations with China at an early stage, and it has been secretly deepening cooperation with China. After all, the donors can obtain the great commercial interests by lending for the infrastructure projects that AIIB provides. Intending to collaborate with China in lending for infrastructure projects, joint teams were established in DFID's main office and in African countries (Brautigam 2010: 39–40; Kragelund 2015: 257–58). In 2013, when China launched the One Belt One Road initiative, the UK became one of the most positive supporters of the project. In recent years, due to the joint efforts of these two countries, much remarkable progresses have been made in their financial cooperation. Aside from its active action in the AIIB, the UK has become the second-largest RMB off-shore financial market, and London, the top international financial center, has been playing an irreplaceable role in the globalization of RMB. The mutual investment of China and the UK has also taken great strides (Bai 2017: 102). In 2015, Chinese President Xi visited the UK and was kindly accommodated by the British royal family. During this visit, agreements on several big projects were completed (Bai 2017: 103).

China set the deadline for application of the founding members as of March 31, 2015, and it proactively asked South Korea, Australia, and others to apply to it. The US government, concerned about China's aggressive promotion, directly told the UK not to participate in the AIIB. Nevertheless, shortly thereafter (March 12, 2015), the UK joined the AIIB as first among the DAC countries to do so, which has had a positive effect on the foundation and development of AIIB. As a result, the DAC countries such as France and Germany joined AIIB (Bai 2017: 102; Sun 2015; Sekine 2015: 2; Financial Times 2015).

In December 2015, the AIIB was established with 57 founding members, including six DAC countries (Austria, Germany, Luxembourg, Netherlands, Norway, and the UK). By October 2017, the members of AIIB had grown to 80 countries, including prospective members, which surpassed ADB and the European Bank for Reconstruction and Development, only second to the WB (Weiss 2017: 1; Bai 2017: 102). As Table 4.4 shows, 21 countries (including four prospective AIIB members) among the AIIB members belong to the DAC, which means a majority of all 30 DAC countries have joined AIIB or will join it.

The AIIB has been steadily developing. It approved 21 projects and given loans amounting to $3.49 billion dollars before October 2017 (AIIB 2017a). In the less than 2 years since its official establishment, the AIIB has promoted itself as a serious and consistent alternative to Western-led international financial institutions, most obviously the WB and the ADB. Its growing attractiveness derives in particular from

Table 4.4 AIIB members (AIIB 2017a)

Membership date	Members
December 25, 2015	Austria, Germany, Luxembourg, Netherlands, Norway, the UK
January 7, 2016	Finland
January 15, 2016	Denmark
March 4, 2016	Iceland
April 25, 2016	Switzerland
June 15, 2016	Poland
June 16, 2016	France
July 13, 2016	Italy
June 23, 2016	Sweden
February 8, 2017	Portugal
June 16, 2017	Hungary
October 23, 2017	Ireland
Prospective Members	Belgium, Canada, Greece, Spain

China's intention to present the AIIB as an institution able to reform and complement the post-World War II global economic governance domain promoted by the Bretton Woods institutions (Menegazzi 2017).

In short, the fact that many of the DAC countries joined the AIIB shows that they superficially respect the existing regime but practically seek to promote their own commercial interests, which can impair what the existing regime carefully forbid and hoped to achieve.

4.5 Conclusion

This chapter examined how the increasing presence of emerging donors has affected the DAC regime and its member countries. The DAC understands that, under the principle of charity, donors should not promote their own commercial interests using development assistance and encourages the DAC countries to comply with the concept of ODA and the standards of poverty reduction. As a result, ODA of the DAC countries has converged, and emerging donors who have recently joined the DAC are trying to comply with its standards as well. The ODA regime has subsumed emerging donors and enlarged its scope of application and to develop itself while keeping its fundamental principles.

Meanwhile, many DAC countries are promoting their commercial interests through development assistance, as emerging donors are doing. If we examine ODA of each DAC country, it appears that many DAC countries have increased the allocation of ODA to the economic infrastructure sector, leading to the promotion of their commercial interests. Japan, who has traditionally focused on development assistance for infrastructure construction, emphasized the merits of its ODA again after Chinese development assistance attracted attention. Furthermore, when China announced the plan for the establishment of the AIIB, most of the DAC countries, including the UK, successively joined the AIIB.

The DAC has developed a regime of poverty reduction and cannot be transformed to a regime built on contrasting principles. However, most DAC countries are promoting their own commercial interests without hesitation and have joined AIIB, which will provide loans for infrastructure construction. The value of aid as charity has declined and the aid as economic statecraft, which the DAC regulated for many years, is reviving. This means the DAC regime will be undermined.

It might be considered inevitable that the DAC has been ineffective. Developing countries have achieved economic growth and need major investment for infrastructure construction. The DAC has a long tradition of encouraging its members to provide technical assistance for poverty reduction and cannot easily change its direction. Therefore, the DAC countries have tried to deal with their changing needs individually, and the DAC has been undermined. Recipients welcome this trend of donors to provide the loans for infrastructure construction. The trend of preferring commercial-based activities will continue for a while. Meanwhile, commercial-based activities cannot meet the needs of poverty reduction and cause risks. Where many donors are prioritizing their commercial interests over poverty reduction in the developing countries, we may leave serious poverty problems behind and spread human rights violations and environmental destruction. Thus, global governance of international development cooperation is essential. We keep a very close watch on how far the DAC can play a role in creating global governance of international development cooperation.

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