

Canada applies to join Chinese infrastructure bank

by Angela Gismondi Sep 9, 2016

Key players in the Canadian construction industry are cautiously optimistic Canadian firms and the economy could benefit from the federal government's plan to join the China-led Asian Infrastructure Investment Bank (AIIB).



The announcement that Canada will apply to join the AIIB was made by Prime Minister Justin Trudeau in Beijing Aug. 31, after meeting with Chinese Premier Li Keqiang. The goal of the bank, which was officially established last December, is to support building projects and stimulate growth by funding Asia-Pacific infrastructure projects. The purpose of an infrastructure bank is to provide low-interest loans to governments investing in priority infrastructure projects.

The AIIB has about US\$100-billion in capital and has already invested more than US\$500 million in Bangladesh, Indonesia, Pakistan and Tajikistan. Over the next five years it plans to loan out US\$10 billion to \$15 billion, Chinese officials said.

Supporters say the bank will strengthen ties with China, the world's second largest economy, and boost the Canadian and global economy through infrastructure investments.

"At this point it would appear that it would be better for Canada to be part of this organization than outside of it," said Michael Atkinson, president of the Canadian Construction Association, in an email to the Daily Commercial News. "Being on the inside means that Canada can push for proper governance and oversight and try to direct the bank to pursue alliances that would be in

the best interests of a broader approach. It obviously also helps with Canada's larger diplomatic relationship with China, especially when it comes to trade."

Some opponents suggest the institution could be seen as competition to existing organizations such as the World Bank and the Asian Development Bank. It could also impact trade relations.

"If there is a downside it might further strain Canada-U.S. trade relations, which are already strained at best right now," Atkinson noted. "The U.S. refuses to join the AIIB believing it to be politically motivated."

Although the Canadian government reports it has not yet decided how much it will contribute to the bank, Canada is looking to become the first North American member. So far, the eight-month-old infrastructure bank has 57 member countries including Australia, the United Kingdom, France, Germany and South Korea, all of which are founding members and signed on last year. The United States and Japan are the only G7 countries that have not joined the infrastructure bank. One of the potential benefits of joining the bank is to provide Canadian construction firms with the opportunity to win competitive bids for Asian infrastructure projects, Atkinson added.

"One would think that Canada being part of the Asian Infrastructure Investment Bank can only help with access," he said. "However, there are a host of other challenges and obstacles associated with doing work in developing countries that make them less appealing to Canadian firms."

John Gamble, president and CEO of the Association of Consulting Engineering Companies - Canada, pointed out Asia is an enormous growth market for infrastructure.

"It's potentially a great opportunity as long as we show some prudence and diligence moving forward," explained Gamble, adding as of last year Canada was the largest exporter of engineering services in the world. "Asia is in a very important market for transporting our engineering services. I guess pragmatically, if we're not part of the bank, we could find ourselves at a competitive disadvantage compared to other countries."

There is certainly a need for infrastructure development across Asia, he said, and many of the countries who are among the top 10 engineering service exporters are already on board.

"Asia is huge and this strengthens our opportunity to play in that sandbox," said Gamble. "A lot of countries that we typically compete against on the international stage — with the noteworthy exception of the U.S. — are already shareholders."

Critics have warned the new bank could provide loans to countries without requiring them to uphold environmental, social and anti-corruption standards.

"The World Bank and say some of the other multilateral lending banks, they are a little more mindful of issues like exploitation of labour, environmental consequences," Gamble explained. "They're (the AIIB) probably not as strong as the World Bank in terms of anti-corruption reforms"

so if we're going to play in those waters, we have to do so with our eyes open. I think in light of recent experiences in other parts of the world, Canadian firms today probably have some of the most robust integrity management systems."

Not all clients are created equal, he added.

"Some clients, some governments and public agencies around the world are frankly higher risk than others and have very different cultures in terms of what's acceptable practice in doing business," he said. "Whenever you are operating overseas, it's always important to be vigilant, to do your due diligence before proceeding, regardless of who the funding agency is."

Andy Manahan, executive director of the **Residential and Civil Construction Alliance of Ontario**, agreed it makes sense for Canada to be part of the AIIB.

"It's a geo-political play," said Manahan, adding the list of countries who have already joined is quite extensive. "They've already got quite a number of countries who have signed on and it makes sense for Canada to join as well for a variety of reasons."

While he recognizes some are more interested in preserving the value of the World Bank, he said, "Now that it (the AIIB) has been created it's one of those organizations you just can't ignore."

Canada is expected to submit its application to join the bank by the end of September and the bank's officials could decide on new members in early 2017.