

PARLIAMENTARY DEBATES

HOUSE OF COMMONS
OFFICIAL REPORT

Second Delegated Legislation Committee

DRAFT ASIAN INFRASTRUCTURE INVESTMENT BANK (INITIAL CAPITAL CONTRIBUTION) ORDER 2015

Monday 19 October 2015

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IN GENERAL COMMITTEES

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The Committee consisted of the following Members:

Chair: MR JAMES GRAY

- | | |
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| † Berry, Jake (<i>Rossendale and Darwen</i>) (Con) | † Malhotra, Seema (<i>Feltham and Heston</i>) (Lab/Co-op) |
| † Costa, Alberto (<i>South Leicestershire</i>) (Con) | † Parish, Neil (<i>Tiverton and Honiton</i>) (Con) |
| † Davies, Chris (<i>Brecon and Radnorshire</i>) (Con) | † Quince, Will (<i>Colchester</i>) (Con) |
| † Davies, Glyn (<i>Montgomeryshire</i>) (Con) | † Reed, Mr Jamie (<i>Copeland</i>) (Lab) |
| † Hands, Greg (<i>Chief Secretary to the Treasury</i>) | Reynolds, Emma (<i>Wolverhampton North East</i>) (Lab) |
| † Hart, Simon (<i>Carmarthen West and South Pembrokeshire</i>) (Con) | † Stride, Mel (<i>Lord Commissioner of Her Majesty's Treasury</i>) |
| Kerevan, George (<i>East Lothian</i>) (SNP) | Wilson, Sammy (<i>East Antrim</i>) (DUP) |
| † Lefroy, Jeremy (<i>Stafford</i>) (Con) | |
| † McGinn, Conor (<i>St Helens North</i>) (Lab) | John-Paul Flaherty, <i>Committee Clerk</i> |
| † McDonald, Andy (<i>Middlesbrough</i>) (Lab) | |
| Mahmood, Mr Khalid (<i>Birmingham, Perry Barr</i>) (Lab) | † attended the Committee |

Second Delegated Legislation Committee

Monday 19 October 2015

[MR JAMES GRAY *in the Chair*]

Draft Asian Infrastructure Investment Bank (Initial Capital Contribution) Order 2015

4.30 pm

The Chief Secretary to the Treasury (Greg Hands): I beg to move,

That the Committee has considered the draft Asian Infrastructure Investment Bank (Initial Capital Contribution) Order 2015.

It is a pleasure to serve under your chairmanship, Mr Gray. The order covers the UK's capital contribution to the new Asian Infrastructure Investment Bank. The order, which was laid before the House on 7 September, gives authority for the initial capital contribution of \$3 billion to the AIIB under the International Development Act 2002.

As we continue to secure our business-led recovery, one of the strongest cards in our pack is our openness to global markets and the fast-growing markets of the emerging economy in particular. Indeed, Mr Gray, you might have noticed that the biggest game in town—China—is coming to town tomorrow. As we have always prided ourselves on leading the field, it is no coincidence that the UK was the first western country to issue a renminbi denominated bond. It is the same story with the AIIB. In March, we were the first major western country to become a prospective founding member. Where we led, others followed: Germany, France, Italy and Spain all followed us. Seventeen European countries are now signed up to be part of the bank, as well as countries further afield such as New Zealand, Australia and South Korea. There is a significant advantage to being there from the start. We have been able to help shape the bank in the British interest. Importantly, that includes ensuring that it will meet the best international governance standards.

The case is compelling. Asia needs infrastructure and, over the next 10 years, to meet growing demand, developing countries in Asia require infrastructure financing to the tune of \$8 trillion. Investment through the AIIB will support the building of that infrastructure by providing financial support for infrastructure development in Asia and the Pacific. In its early years, the AIIB is expected to focus on energy, transport and telecommunications. Such investments will help to drive growth and to lift living standards in Asia and the Pacific, which will benefit the whole global economy and particularly service-providing economies such as ours.

Our participation in the AIIB will help to strengthen and deepen our relationships with Asia, and not least with China. China is our sixth-largest goods market. Our goods exports to China have more than doubled since 2010 and we are now the top European destination for Chinese inward investment.

The whole of Asia provides British businesses with opportunities. China is important, but so are India, South Korea, Indonesia and others. Indonesia, for example, is the 16th largest economy in the world, but it is projected to become the fifth-largest by 2030.

Stronger links with those countries will allow our businesses to make the most of the opportunities offered by those expanding economies. Nowhere is that truer than in the financial services sector. As hon. Members know, London is the global financial capital: 40% of global foreign exchange trading happens here. Twice as many euros are traded in the City as in the eurozone, and twice as many dollars are traded in the City as in the US. Importantly, we are truly global, with particular strengths in Asian finance and Islamic finance. The five largest Chinese banks have established operations in London and are growing their international business in the City. London engages with the world, and that means that the world engages with London.

I should stress that this is not just about London or finance. From Brighton up to Aberdeen, we have great expertise in areas as diverse as green investment, infrastructure, accountancy, engineering and project management. Therefore, a host of businesses across the country and in a variety of sectors are well placed to take advantage of the opportunities offered by the world's fastest-growing economies.

That is the context. I will now turn briefly to the details. The order provides the initial capital contribution to the AIIB. I want to ensure that the Committee is clear about what it is voting on. First, I stress that this is a contribution, and I will pause on that term. This is not a case of something for nothing. We contribute to the AIIB's capital base and get an asset in return as a shareholder of a new bank, with a significant contribution to make, acting in a fast-growing market.

The contribution itself of \$3 billion, or just under £2 billion sterling, is split into two parts. We pay only 20% of the total in cash, which is roughly £400 million. That payment is made in equal parts of £80 million spread out over five years—the actual cash paid out is in the region of £80 million a year for those five years. I should add that that contribution was scored in the summer Budget 2015. The other 80% is callable capital—it says that we stand behind the bank and is a contingent liability. It is worth being very clear that it is unlikely that that would be called, and we will take significant interest in what the AIIB actually does. We have been and will continue to be active players in it.

The investment demonstrates that the UK is an outward-facing country that delivers opportunities for British entrepreneurs and businesses and puts us at the heart of a new institution to deliver much-needed investment. It proves that this country invests in growth and builds productive partnerships across the world. I commend the order to the Committee.

4.36 pm

Seema Malhotra (Feltham and Heston) (Lab/Co-op): It is a pleasure to serve under your chairmanship, Mr Gray, and to respond to the comments of the Chief Secretary to the Treasury. As he mentioned, this is a timely debate—the Chinese President Xi Jinping will arrive today, and the AIIB was proposed by China in 2013. In the spirit that the Minister outlined, we welcome the

Government's participation in and contribution to the AIIB, which is an important development for progress in the Asia-Pacific region and represents our sense, as a nation, of being part of and engaged in a global economy in which we participate as partners in development.

In the Labour party, we are committed to international development in commerce, trade and services, and to the investment in infrastructure through which we see nations develop and generate new possibilities for businesses and industry. Indeed, this delegated legislation is possible only because of the International Development Act 2002, which was passed by the last Labour Government.

We have a strong history of trade and economic relations with other countries, and in that spirit, we support the move being made today, but I acknowledge some points made by observers that it very much contrasts with the lack of investment made in our own industry in recent days and weeks, particularly the steel industry, which has been in such need of Government attention. I hope the Minister will reflect on that in his response.

The Chair: Order. The Minister would be quite out of order if he did so.

Seema Malhotra: In which case the Minister may want to make some comments outside the Committee.

We recognise the spirit in which the bank is being set up, our role in it and the contribution we can make to it. The Minister has outlined some of the important priorities for the bank. For some of the nations that it will assist where poverty is still so rife, investment is absolutely vital in ensuring a greater quality of life and the opportunity for economic development in all parts of those nations. It is also vital in tackling poverty, for example, in India, the Philippines and many other nations, where there are issues with access to water, power and infrastructure, and where so many people live below the poverty line.

I hope the AIIB will live up to some of the expectations, but I also have a number of further questions for the Minister. First, how will we ensure that the investments made by the bank will be in the interests of those populations and make good on the commitment to the outcomes that we want it to achieve? How will we be sure that UK capital will not be used to support any kind of exploitative working conditions in projects in which we have a stake?

Secondly, as the Minister has outlined and as the explanatory notes show, our contribution will be \$3 billion, or £2 billion, over five years. Will the Minister confirm that the capital contribution means an increase in the UK's national debt, albeit corresponding to an increase in the value of assets? Will he also clarify whether the contribution counts towards the Government's commitment to maintaining overseas development aid as a share of GDP? What are the implications for the Government's new fiscal plan and charter commitments in the unlikely but possible event that contingent liabilities are called upon? Might the Government be forced to make other cuts or raise taxes to make good any temporary or permanent loss?

Thirdly, the Opposition want to ensure that our contribution represents value for money for the taxpayer. Will the Minister explain how that was weighed against the wider developmental or foreign policy benefits of the commitment? Finally, we want any contribution to be accounted for adequately and transparently—I am sure the Minister wants that, too—so that the Government

can be accountable to Parliament and to the taxpayer about our contribution. We want the relationship to get off to a good start, and we need to set the expectations of, and rules and relationships for, the new bank to ensure a positive, constructive long-term relationship that meets the expectations and ambitions of the bank's founder nations and of UK citizens.

4.42 pm

Jeremy Lefroy (Stafford) (Con): I draw Members' attention to my entry in the Register of Members' Financial Interests as chairman of the Parliamentary Network on the World Bank and International Monetary Fund.

I have four questions. The first follows up the point made by the hon. Member for Feltham and Heston on overseas development aid. I imagine that our contribution will be made from our overseas development budget and will be counted as part of ODA. ODA can be applied only to low and middle-income countries, so I would welcome confirmation that the rules of the bank will prevent it from investing in or lending to countries that are not low or middle-income countries.

My second question is about the directorship. Our World Bank director is the Secretary of State for International Development, whereas the Chancellor of the Exchequer is our director of the International Monetary Fund. I notice that, for the AIIB, which is also a multilateral development bank, our director will be the Chancellor of the Exchequer. I wonder what the difference is between the work of the World Bank and of that development bank, and whether any consideration was given to whether the AIIB should also be part of the remit of the Department for International Development.

Thirdly, as the Minister will know, the World Bank has four major bits. The first is the development bank—the International Bank for Reconstruction and Development. The second is the International Development Association, which is very much a soft fund, largely for giving grants to low-income countries. Is it expected that the AIIB, a development bank, will follow the World Bank in doing that? The third part of the World Bank is the International Finance Corporation, which invests in private sector equity. Again, I wish for clarification as to whether the AIIB intends to do that. The fourth part of the World Bank is the Multilateral Investment Guarantee Agency, or MIGA, which puts out guarantees rather than direct financing. Is it intended that the AIIB has an arm of that type as well?

Finally, as I said, I chair the Parliamentary Network on the World Bank and International Monetary Fund, which seeks to inform parliamentarians of countries that are members of those organisations and to give some form of accountability, so that we can look at what work is being done. Is it intended that a similar form of parliamentary network will be established for parliamentarians of the 57 countries so far engaged with the AIIB, to ensure that it is accountable in some way to parliamentarians in the countries that have invested in it?

4.44 pm

Mr Jamie Reed (Copeland) (Lab): Briefly, the Government's policy of engagement with China, as well as the direction of travel inherent within that, which I

[Mr Jamie Reed]

broadly support, is clearly a high-wire act. Everyone in the House should seek to support it. China, too, has enormous economic ambitions. Those familiar with the new rulers of the country will understand the Made in China 2025 programme that is in place. The Chinese intend to transform their economy beyond all recognition in the next 10 years, which is a huge undertaking that is already under way.

The content of the draft order should really have been the subject of an Act of Parliament, not simply put in a little-scrutinised instrument such as the one before the Committee today. That is something we will all come to regret.

The draft order represents an initial contribution, as the Minister outlined. When will the other contributions be expected? What kind of amount will we be expected to contribute in future? What assurance will the Minister give to those millions of working families about to lose £1,300 as a result of Government policy that—

The Chair: Order. That is absolutely nothing to do with the draft order.

Mr Jamie Reed: I absolutely obey your strictures, Mr Gray.

Finally, will the Minister provide us with some reassurance on the attitude of our colleagues in the United States towards our heavy investment in the bank?

4.46 pm

Greg Hands: I thank colleagues for their questions. In response to the hon. Member for Feltham and Heston and her questions on how we ensure that investments are in the interests of the citizens of the recipient countries, and that we avoid exploitation, I say two things. First, we are debating today the capital contribution that the UK is making. There will be a separate opportunity in the House precisely to debate the function of the AIIB. However, the UK being there from the beginning, or near the beginning—we were the first European country in the bank—and with significant presence, will make it more likely that we will be of influence.

Seema Malhotra: The Minister talked about the functioning of the AIIB being subject to a separate debate. Will he clarify that that will include governance, role, transparency and accountability, and a voice in the governance of projects as well as of the bank?

Greg Hands: Everything the hon. Lady mentions is laid out in the Act. There will be two other orders to debate. Today's is purely about the capital contribution. It would be beyond me to say precisely what will or will not be debated under the other two statutory instruments, which are coming through other Departments.

The hon. Lady mentioned the increase in the UK national debt, but, importantly, not the deficit. It is important to recognise that we are purchasing an asset—shares in a bank—and to date no multilateral bank has ever called in a contingent liability from the UK, so that is unlikely to happen.

My hon. Friend the Member for Stafford asked a question that was also asked by the hon. Member for Feltham and Heston, which was whether the contribution could be classed as ODA. We are awaiting a pronouncement from the OECD, which monitors the ODA rules. We expect that pronouncement by May 2016 and it would be retrospective as to whether something was ODA.

Seema Malhotra: The Minister is right on the low risk of contingent liabilities being called in, but will he clarify whether the Government have a process for the circumstances in which that might occur? Has he thought through what could happen in such circumstances?

Greg Hands: The Government have in place a number of procedures. Such contingent liabilities have been around for some decades. For example, the UK has been a contributor to the International Monetary Fund since the 1950s, and an interesting question might be whether the Opposition's position is to continue being a contributor to the IMF, given that they voted against that in the previous Parliament. I will not dwell on that, however.

My hon. Friend the Member for Stafford asked why the World Bank is dealt with by the Secretary of State for International Development and the AIIB is dealt with by the Chancellor. That is a divide across various international financial institutions. The Treasury deals with the IMF, the European Investment Bank and others that focus on the market, whereas DFID concentrates on the World Bank, the Asian Development Bank and so on. The purpose of the AIIB is to support economic growth, which is clearly within the Chancellor's remit, bearing in mind that we are talking about infrastructure.

My hon. Friend also asked about climate finance. The president-designate of the AIIB, Mr Jin, has made it clear that his vision is for a "lean, clean and green" bank; and the UK is at the table helping to make those decisions, by being an early contributory member. My hon. Friend's point about the parliamentary network of the 57 countries was interesting, and we will reflect on whether there should be a parliamentary network in a similar way to what can happen for other multilateral institutions. I will perhaps write to him about that.

The hon. Member for Copeland asked whether there should be primary legislation, but the Opposition cannot have it both ways. They cannot claim that the orders result from their own Act—the International Development Act 2002—and at the same time question why there is no primary legislation. Perhaps they should get their position in order first.

Mr Reed: The Minister knows that I hold him in significant respect and regard, but does he regret that we are rushing to push through a complex and important measure to satisfy the need for a press call with the Chinese premier tomorrow?

Greg Hands: I disagree about that. We announced in March that we would be joining the bank, and I think October is a reasonable time for us to be debating that in the House of Commons. I do not personally feel that that seven months to join a multilateral institution is particularly rushed.

The hon. Gentleman asked about the position of the United States. The US was initially a little sceptical about joining the AIIB, but its tone softened in recent months, and at the recent Chinese state visit to the US, a joint statement said:

“Both sides acknowledge that for new and future institutions to be significant contributors to the international financial architecture, these institutions, like the existing international financial institutions, are to be...operated...with the existing high environmental and governance standards”.

To go back to the hon. Gentleman’s earlier point, the measure was scored in the summer Budget. He had a perfect opportunity to ask more questions between 8 July and today about the operation of the bank.

We have had a good debate today. I have been heartened by the wider recognition that, to continue building a strong economy in this increasingly globalised world, building productive relationships is vital. Our commitment to the AIIB is a classic win-win situation, with all sides benefiting. Countries in Asia and the Pacific will have many more of their infrastructure needs—very pressing needs, in some cases—delivered. Those are business opportunities that UK companies are ideally placed to make the most of.

Question put and agreed to.

4.53 pm

Committee rose.

