



Asian Infrastructure Investment Bank: The Way Ahead

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On June 29, 2015, representatives from as many as 50 countries including India signed an agreement to establish the Asian Infrastructure Investment Bank (AIIB), a much lauded Chinese initiative to establish an Asian financial institution, which is aimed at strengthening infrastructure and building intra-regional, regional and inter-regional land, air and maritime connectivity among the member countries, leading to a seamlessly interlinked zone among the member countries. The agreement puts in place a legal framework for the multilateral bank, which is based on a long-cherished vision of providing a sustainable alternative to the West-driven and dominated international monetary and financial architecture.

Established with an authorised capital of US\$100 billion, the bank is likely to have seven more members in the grouping, thus lifting the total number of members to 57. In fact, the signing-in ceremony of the agreement saw a total of 57 countries in attendance. The formal inking of the agreement paves the way for the opening of the bank in late 2015. The member countries have already given their consent to establish the bank in China, and the bank will be headquartered in Beijing.

Background: Structure, Functioning and Composition

AIIB is a regional financial institution, first proposed by China. The main function would be to facilitate infrastructure development of the developing and underdeveloped Asian countries. Though the idea of the bank was first mooted by Chinese leadership during

Chinese Premier Li Keqiang and President Xi Jinping's visits to the Southeast Asian region in 2013, the plan of setting up a regional infrastructure bank was pushed by Chinese Premier Li Keqiang during his speech at the 2014 Boao Forum for Asia in April 2014. He stated, "China is ready to intensify consultations with relevant parties in and outside Asia on the preparations for the Asian Infrastructure Investment Bank and hopes that the bank can be officially launched at an early date."¹

Consequently, in October 2014, just few days before the 26th annual Asia-Pacific Economic Cooperation (APEC) Summit, 22 Asian countries signed a Memorandum of Understanding (MOU) to establish the AIIB. In November 2014, Prospective Founding Members (PFM) deliberated upon the possibility of the AIIB at the 1st Chief Negotiators' Meeting (CNM) in Kunming, China. During the 2nd CNM, held in January 2015 in Mumbai, Articles of Agreement (AOA) were put forward. The AOA was discussed further at the 3rd CNM meeting in Almaty, Kazakhstan in March 2015; and also at the 4th CNM meeting in Beijing in April 2015. At the 5th CNM in Singapore in May 2015, discussions of the AOA were finalised.² These preliminary negotiations led to the signing of the final agreement on June 29, 2015. The successful transition of AIIB from a 'Chinese initiative into a China-led regional institution with global membership' seems complete with the formal signing of the agreement on June 29, 2015.³

To be headquartered in China, the bank comprises 50 founding members, seven Prospective Founding Members (PFM) (Denmark, Kuwait, Malaysia, The Philippines, Poland, South Africa, and Thailand) and three applicants, namely, Hong Kong, Hungary and Taiwan. If Hong Kong becomes a part of AIIB, then an AIIB office will also be located at China's Special Administration Region.

While many Asian countries and a few European countries are the founding members of the bank, the US and Japan have not joined the initiative and have kept themselves away from it, for obvious reasons though. The US and Japan, which is the largest stakeholder in the ADB, have been questioning the very transparency of the China-led AIIB on the grounds of transparency and impartiality in project funding. It is interesting to note that Taiwan and China's ally, North Korea, had applied for the membership as the Prospective Founding Member (PFM) in early 2015. However, their requests have been turned down. While no clear reason has been given for the rejection of Taiwan's bid, it seems Taiwan's application was

rejected on the basis of its status. A window of hope for Taiwan is that it may reapply for the membership at a later stage. In the case of North Korea, its bid has been outrightly rejected because it could not provide a detailed breakdown of financial and economic picture of the country.

So far as the structure of the AIIB is concerned, it is evident that the bank showcases an 'Asian face' with China at the 'driver's seat'. This is clearly manifested with the power of purse as three-fourth of the total capital would come from Asia. In fact, China is the largest stakeholder in the bank with a total capital of US\$ 30 billion. Therefore, with regard to an individual state's share, the size of the economy and amount of contribution would determine the share of quota in the bank. For instance, China, India and Russia are the three largest shareholders, taking a 30.34 percent, 8.52 percent, 6.66 percent stake, respectively. Their voting shares are calculated at 26.06 percent, 7.5 percent and 5.92 percent, respectively. Against this backdrop, China's stakes in AIIB will give it a veto power on some key decisions despite its assurance that it is not keen to possess such powers.⁴

As far as its functioning is concerned, the AIIB, a modern knowledge-based institution, will focus on the development of infrastructure and other productive sectors in Asia, including energy and power, environmental protection, rural infrastructure and agriculture development, transportation and telecommunications, water supply and sanitation, urban development and logistics, etc.⁵

Implications for the Region

The AIIB is considered a rival to the West-dominated financial institutions: IMF, World Bank and Asian Development Bank. What has given birth to the AIIB is the slow pace of reforms, long-term bureaucratic hassles and dominance of the Western countries in the already existing financial institutions. For example, while the World Bank and the IMF are considered to be dominated by the US and Europe respectively, ADB is a Japan-dominated financial institution, which is not in sync with China's economic interests. From the Chinese perspective, it makes sense for China to push for such a regional economic framework, since in ADB, while Japan and the US are the largest stakeholders with 15.67 percent and 15.56 shareholdings, China's shareholding is just confined to 6.47 percent. Even other Asian countries, particularly smaller countries, do not have much say in the global financial system and architecture.

This China-led initiative is believed to serve Beijing's twin purposes:

- First, setting up of the AIIB is a significant breakthrough in China's economic diplomacy. Considering that the bank will facilitate the integration of the Asian and European economies, it will not only help China in asserting its regional and global influence, but will also play a constructive role in boosting China's 'One Belt, One Road' initiative. In all probabilities, AIIB will be put to good use by financing infrastructure development in the areas critical for the revival of ancient Silk Road (now termed as the Silk Road Economic Belt) as also expediting the creation of its proposed Maritime Silk Road (MSR). In addition to this, it has been reported that China intends to set up another bank to make the funding available for the development of the 'One Belt, One Road' initiative. The MSR Bank is expected to be established with approximately US\$ 800 million capital. In essence, if a separate bank for the development of China's MSR materialises, AIIB would work in tandem with the new bank to ensure the successful implementation of the project.
- Second, China also initiated BRICS (Brazil, Russia, India, China and South Africa) New Development Bank and is pushing for another regional bank, the SCO (Shanghai Cooperation Organisation) Development Bank. Interestingly, both the regional banks will be headquartered in Shanghai. Seemingly, what China aims to achieve through the regional financial frameworks is to change the regional economic order and make Asian economy free from the dominance of the West. China's aim is to create an economic architecture, which revolves around its economic prowess and decisions. For China, AIIB's potential lies in making the Free Trade Agreement of the Asia Pacific (FTAAP) initiative a success, which competes with the US-led Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP). While TTIP is not able to make much headway, TPP is also facing hurdles as the member countries such as Japan, Malaysia and Vietnam are finding it difficult to convince their domestic constituency on the potential benefits of the agreement. AIIB is likely to have wider strategic implications on the region, as along with regional economic alignments, the bank would also influence the way countries of the region

perceive their strategic interests and threats. Greater stakes among the Asian powers, especially China, would possibly lead to more interdependence in the region. Though it is a little premature to predict how far the initiative would go, it is highly likely that countries of the region might have a fresh relook at the manner in which regional politics is perceived. It is in this context that Hugh White argues, “Don’t imagine for a moment that the AIIB is just about economics. For decades, US strategic and political pre-eminence has been underwritten by Washington’s primary role in international financial institutions like the World Bank and the Asian Development Bank (ADB). So, Americans know how effective the AIIB could prove to be in expanding China’s influence in Asia, not just economically, but politically and strategically too.”⁶

Clearly, AIIB, as and when functional, would accrue significant benefits to China. The bank might also yield fruitful results for other member countries, especially those considered closer to China. For instance, developing Asian countries will now have a bigger say in the bank. In addition to this, owing to the focal objective of the bank, the procedure of providing funds for infrastructure development will be on a fast-track mode.

However, apprehensions and uncertainties with respect to China’s assertiveness still linger. Fears that AIIB will be dominated by China are bound to be prevalent. This holds true, particularly when the disparity in the economic status of the member states is taken into consideration. For instance, while the GDP of China, which is the second largest economy in the world, is US\$ 10.36 trillion, the GDP of Tajikistan, one of the other members, is a miniscule US\$ 8.5 billion.

Though earlier the US had shown scepticism about the bank, there seems to be a change in its approach now. On March 31, the US Treasury Secretary Jack Lew stated, “The United States stands ready to welcome new additions to the international development architecture, including the Asian Infrastructure Investment Bank.”⁷ Chances are that China might try to rope in the US. The matter may be pursued and the talks about the US joining the AIIB may take the centre stage when President Xi visits the US in September 2015. At later stages, the US may be compelled to consider joining AIIB as an economically integrated China

is in the US interest too. Nevertheless, China's lead in AIIB will continue to remain a grey area if the US joins AIIB.

As far as India is concerned, its approach has been cautious while accepting China's proposed projects and China-led initiatives. However, the situation is relatively different with the AIIB. This mechanism suits India's interests as India is most likely to occupy the Vice President's seat at the AIIB with the second largest shareholding in the bank after China. Secondly, as of now, AIIB aims to be more focussed on developing Asian infrastructure. India has a natural interest building the domestic infrastructure and completing the developmental projects swiftly. The development of intra-regional, regional and inter-regional connectivity has become a priority for Prime Minister Narendra Modi-led NDA government. It was pointed out in the 12th five year plan (2012-17) that India would at least require US\$ 1 trillion investment in infrastructure to ensure sustainable growth and overcome regional disparity. India's inclusion into the AIIB as the founding member would contribute in its infrastructure development and address the problem of lack of investment for the same purpose. India could seek financial assistance from AIIB to develop its infrastructure.

Conclusion

The AIIB is still at a nascent stage and is expected to be fully functional by 2016. Interestingly, as of now, 57 participants are involved in the AIIB bank negotiations and it is attracting more applications from countries across the world. If more members are to be included, the number of members in AIIB would exceed the number of ADB members, which currently stands at 67. It certainly holds promise for the countries dissatisfied with the existing global financial system. The AIIB is already gaining prominence with EBRD's (European Bank for Reconstruction and Development) announcement of the possibility of having EBRD and AIIB's first joint project in 2016.

Given that connectivity is the new mantra in Asian regionalism in the contemporary times, the AIIB aims to develop Asian infrastructural facilities. However, the scope needs to be widened from providing funds for infrastructure development of the individual countries to facilitate them in strengthening connectivity at sub-regional, regional and inter-regional levels. While it is a bit early to predict the exact future trajectory of the AIIB at this juncture in view of the fact that the objectives of the AIIB are not very clear because of the absence of

finer details. However, it is highly likely that such endeavours would lead Asia towards the path of greater regional economic integration. To make the AIIB a success story, what China needs to do is to attempt alleviating suspicions of members of the AIIB regarding its assertive behaviour, particularly on the South China Sea issue, and take steps to allay doubts regarding possible domination of the AIIB.

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Disclaimer: Views expressed are of author and do not reflect the views of the Council.*

Endnotes:

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6 Hugh White, "AIIB: America's Influence In the Balance", Straits Times, October 29, 2014, <http://www.straitstimes.com/opinion/aiib-americas-influence-in-the-balance>, (Accessed on July 2, 2015).

7 "Remarks of Secretary Lew at the Asia Society Northern California on the International Economic Architecture and the Importance of Aiming High", US Department of Treasury, March 31, 2015, <http://www.treasury.gov/press-center/press-releases/Pages/jl10014.aspx>, (Accessed on July 2, 2015).