The Asian Infrastructure Investment Bank (AIIB), a new international financial institution created by China, recently gained media attention following the induction of several new high-profile members. The bank was initially proposed by China and then launched last October with 20 other countries. Since then, many more nations – including some prominent US allies – have signed on. In total, there are now 57 Prospective Founding Members.

The bank’s purpose is to address a yawning infrastructure gap in Asia; the continent is projected to need about $8 trillion by 2020 for infrastructure. While other institutions like the Asian Development Bank could help, the demand for infrastructure is so great that the ADB does not come close to meeting the demand. Officially, the AIIB is meant to solve this problem. The bank will start with a capital base of $100 billion; China will provide half, the rest of the founding nations the other half. Regional members (i.e. those in Asia and Oceania) are to be majority shareholders, while non-regional members (currently consisting mostly of European countries) will hold smaller equity shares as a means for them to invest in Asian infrastructure. Specific areas of investment include “energy and power, transportation and telecommunication, rural infrastructure, and agriculture.
development, urban development and logistics”. On the financial side, the AIIB will raise money through its member countries and by issuing bonds. Money will be distributed through loans, equity investments, and guarantees.

Unofficially, China would like to have more control over the process of infrastructure investment. Currently, the United States and Japan dominate the ADB, and smaller countries have expressed frustration over the US’s unilateral veto power in the International Monetary Fund. Attempts to reform these existing institutions have been slow and produced few results. The AIIB ostensibly provides a chance for smaller and developing countries to have greater say in international economic governance, although to what extent is questionable; China will hold a 50% share in the bank, which could lead to greater domination by China in the AIIB than both the US and Japan have in the ADB combined. Additionally, there are concerns that the existence of the AIIB could lead to the rise of two different standards and economic orders within Asia – one led by China, and the other by the United States and Japan. Some skeptics wonder whether China is seeking to create a parallel system to existing Bretton Woods institutions as a means of undermining American hegemony. Both the ADB and the World Bank official have extended a cautious welcome to the China-led bank for now.

The US’s official line for refusing to join the AIIB was that it would not meet international norms on issues such as labor, environment, and corruption. Other critics also warn that the China-led bank may fall short of the environmental, labor, and procurement standards that are important to the development goal of multilateral lenders. China, however, responded that the new bank will be adopting and adhering to the best practices. China’s decision to start a new international financial institution, rather than funding existing ones, also reflects its frustration with such institutions and their failure to give greater voices to emerging powers.

Backstage, the Chinese initiative has led to an intense diplomatic battle. Since 2014, the U.S. has made an aggressive effort to persuade its allies not to join the China-led institution, citing a concern over a lack of clarity about AIIB’s governance. Its major allies, Britain, Germany, France, Australia and South Korea, signed up anyway. These nations justified joining on the grounds that it would be easier to influence the bank from the inside.

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