

Commentary

THE BUFFIN FOUNDATION

SOCIAL AND ECONOMIC DEVELOPMENT ISSUES

Asian Infrastructure Investment Bank

The Asian Infrastructure Investment Bank (AIIB) is an international financial institution originally proposed by China. In Beijing on October 24, 2014, twenty-one nations signed a Memorandum of Understanding (MoU) that formally established the AIIB. In addition to China, the initial signatory nations to the MoU were: Bangladesh, Brunei, Cambodia, India, Kazakhstan, Kuwait, Laos, Malaysia, Mongolia, Myanmar, Nepal, Oman, Pakistan, Philippines, Qatar, Singapore, Sri Lanka, Thailand, Uzbekistan, and Vietnam. Subsequently, seven other nations have become founding members of the AIIB; these recent new members are Indonesia, Jordan, Maldives, New Zealand, Saudi Arabia, Tajikistan, and the United Kingdom. Hong Kong has also announced its intention to become a member of AIIB.

The AIIB, led by China, will fund various Asian energy, transport, and other infrastructure projects in the region. The Asian Development Bank (ADB) estimates that the region requires about eight trillion dollars to be invested in infrastructure projects by 2020. The AIIB would enable Chinese capital to finance these projects and thus achieve a greater role for China in the economic development of the region, commensurate with its economic and political power. The Chinese expertise acquired in achieving rapid modernization of its own infrastructure in recent decades will greatly benefit the region. China will provide most of the initial capital of fifty billion dollars for the AIIB and has set a target of one hundred billion dollars for the near term.

World Bank Group President Jim Yong Kim has welcomed the AIIB as a new multilateral investment bank, stating that there is a massive need for new investment in this area. President Kim emphasized that the World Bank could

work with the AIIB and praised the new bank as representing good business sense for the region. ADB President Takehiko Nakao was quoted as saying that, given Asia's huge infrastructure funding needs, establishing the AIIB to provide additional resources for infrastructure investments is understandable. He also committed the ADB to consider appropriate collaboration with AIIB.

The AIIB is regarded by some observers as a rival for the World Bank and the ADB that are dominated by developed countries, specifically the United States and Japan. China and other emerging economies have frequently pointed out the limited role that they have in terms of voting power in the World Bank and the ADB. China is grouped with other nations as a "Category II" voting block at the World Bank. At the ADB, China has only a 5.5 percent share compared to 15.7 percent for the United States and 15.6 percent for Japan.

The United Kingdom is the first major economic power outside Asia to apply for membership in the AIIB. The UK's Chancellor of the Exchequer, George Osborne, who recently announced the UK's intention of joining the AIIB, noted that joining at the founding stage would provide an unrivalled opportunity for the UK to invest and grow together with Asian nations. It is expected that investment in the new infrastructure bank will provide UK companies with opportunities to invest in the world's fastest growing markets. However, from a United States perspective, the AIIB is seen as a means of diminishing US influence in Asia. In response to this perceived aspect of US-China relations, the US has persuaded its regional allies, Australia, Japan and South Korea, not to become members of AIIB. The US has expressed its concerns over a number of issues concerning AIIB, including standards of governance, and

environmental and social safeguards.

Ten years ago in the May 2005 edition of *Commentary* we wrote "China's population, estimated at between 1.3 and 1.5 billion, represents one-fifth of all humanity. China has over one hundred cities with population over one million. The number of China's children under age 14 exceeds the total US population. China already dominates many industries and has become the world's workshop, reflecting its location in a stable region; it offers the world's manufacturers a productive workforce at very competitive labor rates. China's embrace of market capitalism, combined with population migration from rural areas to the cities, has a profound impact on the global economy. Estimates of this migration over the last two decades range around 200 million, a number whose significance is evident when compared to the magnitude of the US workforce. How China and other nations use the potential of this low-cost manufacturing resource will inevitably influence national economies around the world and make the twenty-first century the Chinese century. The inexorable economic ascendancy of China is a reality that still has a long way to go and whose effects will be reflected in a major realignment of the economic power and geopolitical influence of other nations." The launching of the AIIB by China is another step in the unfolding scenario of economic, social, and political developments that characterize the emergence of China as a major world power.

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