Research Report

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Forum: *General Assembly Second Committee*
Issue: *The Asian Infrastructure Investment Bank*

Position: *Chair*

Introduction

The Asian Infrastructure Investment Bank (AIIB) is an international financial institution, led by China and proposed in 2013 as an initiative by the government of China. The AIIB was launched at a ceremony in Beijing in October 2014 and it has 57 member states. 20 of those states are non-regional countries and 37 are regional countries, and all these countries together are called the Prospective Founding Members (PFM). All the member states have signed the Articles of Agreement that form the legal base for the AIIB. The general purpose of this multilateral development bank is to provide finance to infrastructure projects in the Asian region as part of China's Silk Road initiative, with a focus on bolstering links across Asia, the Middle East, Africa and Europe.

There is said by analysts of international affairs and finance in Europe, China and the USA that the success of the bank, which was not expected, represents a major turning point in the 'contest' of global influence between Beijing and Washington. There are a lot of different points of view when we talk about the functioning of the bank, the role that it has in the international economic system, and why China came up with the idea of the creation of this multilateral institution, which has a major focus on infrastructure in the first place. Some analysts tell us that it is because of the desire of China to gain power, along with financial clout, while others say that it is because of the fact that China was badly lacking in outlets for its financial surpluses. And others attribute China's motives to geopolitical strategy. There are also some government officials and analysts that have said that growing dissatisfaction among emerging economies at the failure to reform the International Monetary Fund's (IMF) decision-making system encouraged China to set up the new international lender. As you can see, there are a lot of different views and thoughts about why China created the AIIB.

The AIIB can be construed as a natural inter-national extension of the infrastructure-driven economic development framework that has sustained the rapid economic growth of China since the adoption of the Chinese economic system. It stems from the notion that the only way long-term economic growth can be achieved, is through massive, broad-based and systematic investments in infrastructure assets. This is completely different than the more short-term ''export-driven'' and ''domestic consumption'' development models, which is more loved by the neoclassical economists. Development models like this were pursued inconsiderately by many

developing countries in the period 1990-2010, but unfortunately with disappointing results.

Definition of Key Terms

Prospective Founding Members (PFM):
These are the member states which were potential founding countries for the AIIB. The AIIB has 57 prospective founding members.

Infrastructure-based economic development:
It holds that substantial proportion of a nation's resources must be systematically directed towards long term assets such as social infrastructure in the name of long term economic efficiency and social equity. The long term economic efficiency is stimulating growth in economically lagging regions and the social equity is providing free education and affordable healthcare.

International financial institution (IFI):
A financial institution that has been established by more than one country, and hence are subjects of international law. The owners or shareholders of a financial institution are generally national governments. There are different types of international financial institutions and the AIIB is classified as one of the main multilateral development banks (MBD).

Multilateral development bank (MBD):
This is an institution which is created by a group of countries and that provides financing and professional advising for the purpose of development. These banks have large memberships including both developed donor countries and developing borrowing countries. There are different ways MDBs finance projects; one way is in the form of long-term loans at market rates, another way is through very-long term loans (but below market rates) and a third way is through grants. Grants are non-repayable funds.

General Overview

The purpose of the AIIB is to contribute to the promoting of sustainable economic development and to contribute to the creation of wealth, by invest in infrastructure and other productive sectors in Asia. 'One belt, one road' is a Chinese plan with the purpose to revive the historic trade routes by sea and by land through the route of the ancient Silk Road. Investments in ports, high-speed lines and roads fits perfectly into this plan. The purpose of this Chinese plan is in line with the general purpose of the AIIB, and that is why the AIIB has the focus on this Chines plan. Thereby, the AIIB is led by China, what can also be the reason why the AIIB is focussing on a Chinese plan.

The AIIB is viewed as a rival of the World Bank, the International Monetary Fund (IMF) and the Asian Development Bank (ADB). A big difference is that the World Bank, the IMF and the ADB are all dominated by either United States or Japan. The capital of the AIIB is 100 billion US dollars, what is as much as two-third of the capital of the Asian Development Bank and about half that of the World Bank.

China will use the new bank to expand its influence at the expense of America and Japan, Asia's established powers. China's decision to fund a new multilateral bank rather than give more to the existing ones reflects its exasperation with the glacial pace of global economic governance reform. The same motivation is the cause of the creation of the new development bank by Brazil, Russia, India, China and South Africa, which are knows as the BRICS. Even though China has one of the biggest economies in the world and the biggest in Asia, the ADB is, and has always been, dominated by Japan, while Japan's voting share is more than two times China's and the president of the ADB has always been a Japanese one. There have been protest by China about this and while reforms to give China more say at the IMF have been delayed for years, China was taking matters into its own hands and started with the establishment of the AIIB.

Major Parties Involved

The United Nations
the UN has addressed the launch of AIIB as having potential for 'scaling up financing for sustainable development' for the concern of global economic governance.

United States of America
The United States of America has stressed concerns on the transparency in terms of how this multilateral lending institution is going to operate. They have also expressed concerns about whether the AIIB would have high standards of governance, and whether it would have environmental and social safeguards. The United States of America is reported to have used diplomatic pressure to try and prevent key allies, such as Australia, from joining the bank, and expressed disappointment when others, such as Britain, joined.

Following the criticism, the White House National Security Council declared:

Our position on the AIIB remains clear and consistent. The United States and many major global economies all agree there is a pressing need to enhance infrastructure investment around the world. We believe any new multilateral institution should incorporate the high standards of the World Bank and the regional development banks. Based on many discussions, we have concerns about whether the AIIB will meet these high standards, particularly related to governance, and environmental and social safeguards. […] The international community has a stake in seeing the AIIB complement the existing architecture, and to work effectively alongside the World Bank and Asian Development Bank.[1]

Japan
Japanese Finance Minister previously indicated interest in joining the AIIB, but later

1 http://www.civilservicesstrategist.com/item/998-aiib-a-new-beginning-in-post-second-world-war-global-financial-architecture.html

switched his stance. The Cabinet Secretary told the public that Japan was still seeking China's full explanation of the AIIB. Japan is uncertain about whether the AIIB would be properly governed or whether it would damage other creditors.

China
Of course, China is strongly in favour of the whole idea of the AIIB. The creation of the AIIB was their plan and this bank has almost only positive effects for them. It is providing assistance to their plan for better transportation within Asia and from Asia to countries outside Asia. Thus, China is the leading party in the AIIB.

Timeline of Events

October 2, 2013	President Xi Jinping proposes the establishment of the AIIB to promote connectivity and economic integration in Asia.
April 10, 2014	Chinese Premier Li Keqiang announces at Boao Forum that China was ready to intensify consultations with relevant parties in and outside Asia on the preparations for the AIIB.
October 24, 2014	The first batch of 22 PFMs sign the Memorandum of Understanding on Establishing the AIIB in Beijing.
November 24, 2014	Indonesia signs up as the last ASEAN country to join the AIIB.
March 12, 2015	China receives confirmation from the UK that it is applying to join the AIIB as a founding member. The UK is the first of the G7 leading economies to join the bank, and its participation prompts a wave of other European countries to follow.
March 31, 2015	It is announced that 57 countries have joined or applied to join the AIIB as PSM before the deadline.
June 29, 2015	The 57 prospective members sign the articles of association in Beijing.
December 25, 2015	The agreement entered into force.
June 25, 2016	The Bank's Board of Governors held their first annual meeting.

Possible Solutions

It is not easy to find a clear solution on this issue, just because of the fact that there are a lot of different views by a lot of different countries on the Asian Infrastructure Investment Bank. The AIIB is thereby not an issue as we mostly see an issue, this is not something which is acknowledged by the whole world as a problem.

But there are of course some things that can contribute to more satisfaction by countries who have a lot of criticism on the AIIB. One of the most important things is transparency. Transparency in what the AIIB is doing, not only 'on stage' but also 'backstage'. This will make sure that there is less unclear by all countries. Thereby, it is a good idea to take a look at the governance of an institution like the AIIB. The AIIB is an international institution with a lot of PFMs and it is not good if an institution like this is led by just one party. There has to be a clear governance where all participating countries are involved with choosing the board or with be the board. When transparency and a good governance are achieved, then the criticism about institutions like the AIIB will decrease and there is the possibility to make solutions.

Useful documents or/and links

http://www.globaltimes.cn/content/981434.shtml

http://thediplomat.com/2015/05/the-aiib-is-seen-very-differently-in-the-us-europe-and-china/

http://blog.mpettis.com/2015/04/will-the-aiib-one-day-matter/

http://www.aiib.org/

http://euweb.aiib.org/html/aboutus/governance/Board_of_Governors/?show=1

Appendix/Appendices

http://www.scmp.com/topics/asian-infrastructure-investment-bank-aiib

https://en.wikipedia.org/wiki/Asian_Infrastructure_Investment_Bank#cite_note-AOAtext-5

http://thediplomat.com/2016/04/revealed-the-asian-infrastructure-investment-banks-first-projects/

http://thediplomat.com/2015/05/the-aiib-is-seen-very-differently-in-the-us-europe-and-china/

http://www.globaltimes.cn/content/981434.shtml

http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/0,,contentMDK:20040612~menuPK:8336267~pagePK:51123644~piPK:329829~theSitePK:29708,00.html

http://english.caixin.com/2014-12-10/100761304.html

http://www.ejinsight.com/20160412-getting-lost-one-belt-one-road/

http://www.economist.com/news/china/21701505-chinas-foreign-policy-could-reshape-good-part-world-economy-our-bulldozers-our-rules

http://blog.mpettis.com/2015/04/will-the-aiib-one-day-matter/

http://euweb.aiib.org/html/aboutus/introduction/history/?show=0

http://www.economist.com/blogs/economist-explains/2014/11/economist-explains-6

http://euweb.aiib.org/html/aboutus/governance/Board_of_Governors/?show=1

http://www.civilservicesstrategist.com/item/998-aiib-a-new-beginning-in-post-second-world-war-global-financial-architecture.html