THE ASIAN INFRASTRUCTURE INVESTMENT BANK TO SPEARHEAD CHINA'S "ONE BELT, ONE ROAD" INITIATIVE

YU Hong

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Executive Summary

1. On 28 March 2015, China's National Development and Reform Commission, Ministry of Commerce and Ministry of Foreign Affairs jointly released a blueprint for the implementation of the "One Belt, One Road" grand initiative. These action plans are indicative of China's resolute in pursuing its grand vision.

2. Inter-connectivity infrastructure development forms a central part of China's "One Belt, One Road" strategy.

3. The Asian Infrastructure Investment Bank's (AIIB) mission is to facilitate and accelerate infrastructure improvement in the region by providing capital loans and technical services for projects. It will spearhead China's "One Belt, One Road" plans.

4. With the AIIB and the new Silk Road strategy, China is beginning to take a leadership role as a rising global power. The two initiatives have also made China the centre of geo-economics and geo-politics in the region and beyond.

5. The AIIB in particular is important for the former. With its strong financial resources and backing from the Chinese government, it is widely perceived as a potential rival to the West-dominated World Bank and International Monetary Fund (IMF), and the Japanese-controlled Asian Development Bank (ADB).

6. The United States is wary that China may rewrite the rules and practices of the long-established international financial architecture dominated by the West, and eventually replacing it with a China-centric regional and international financial system.

7. In response, the Chinese government has reiterated that the AIIB complements existing international financial systems and will cooperate closely with existing international financial organisations in providing the much-needed infrastructure investment in the region.

8. The AIIB will have difficulty avoiding competition from existing international organisations. However, given that the infrastructure construction market is so enormous, there is enough space for the AIIB, World Bank and ADB to compete and cooperate, rather than contest disruptively.

9. The United Kingdom was the first major developed western country to join the China-led AIIB, and this attracted the participation of other developed Asian and non-Asian countries. There are 57 countries in total serving as the Prospective Founding Members (PFMs) for the AIIB.

10. The inclusion of a sizeable number of non-Asian developed countries in the bank has raised the bank's global influence. It has transformed the AIIB from a regional financial organisation into one with global reach and perspective.

11. The bank needs to fully consider the political and financial risks of funding infrastructure projects in the region as many countries in the region are underdeveloped and economically backward.

12. While the AIIB is a result of China's frustration with the slow pace of reform to the international financial system and its governance, the "One Belt, One Road" strategy is to help China ease its serious production overcapacity.