

**THE ASIAN INFRASTRUCTURE
INVESTMENT BANK AND
CHINA'S ROLE IN REGIONAL
ECONOMIC GOVERNANCE**

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Executive Summary

1. On 29 June 2015, 57 countries signed the Asian Infrastructure Investment Bank's (AIIB) article of agreement in Beijing. The AIIB will be headquartered in Beijing, with Jin Liqun, former Chinese vice minister of finance, as its first president. China has de facto veto power of the bank.
2. The AIIB is the first multinational development bank (MDB) initiated and led by China. It will challenge the dominance of the World Bank and Asian Development Bank in financing regional infrastructure projects, transforming US-led unipolar to multipolar global economic governance.
3. China aims to achieve its diplomatic, economic and political objectives through the AIIB, such as providing multilateral aid, nurturing new markets for its excess infrastructure capacity and exports, developing soft power in the region, facilitating "One Belt, One Road" strategy and steering regional cooperation and integration.
4. The global economic governance structure under the Bretton Woods system did not recognise the status of the Chinese economy. China's endeavours to raise its voting power in the system have been fruitless. Establishing a China-led multinational development bank can ensure that China's multilateral aid serve its national interest best and develop its regional leadership.
5. The mission of the AIIB puts it in direct competition with the Asian Development Bank (ADB) in providing finances to regional infrastructure projects, in particular bankable projects. The AIIB can serve as an alternative institutional platform to ADB for discussing issues related to regional cooperation.
6. The competition between ADB and AIIB is in reality a competition between Japan and China for regional leadership in infrastructure construction and economic development and cooperation. In the long run, AIIB and ADB may turn into an effective platform for the two countries to cooperate on an equal footing.

7. The Abe administration opted not to participate in the China-led AIIB as it conflicts with Japan's interest in ADB and due to constant opposition of the US government. Japan has to stand in line with the United States to avoid damaging Japan-US relations.
8. The US government lobbied its major allies extensively not to join the AIIB. The G-7 countries had an implicit consensus not to support any new MDB but the World Bank and four regional MDBs.
9. The UK's announcement to join AIIB in March 2015 triggered a domino effect among OECD countries and turned AIIB into a significant MDB involving not only developing countries but also major developed countries.
10. The AIIB has generated catfish effects on the Japanese government, ADB and World Bank which have pledged to increase their investments in Asian infrastructure. Regardless of China's political and diplomatic motivations for the AIIB, the investment boom triggered by AIIB could promote regional economic development.