

Competition or a Strategic choice?

International politics over the new,
China-led investment bank

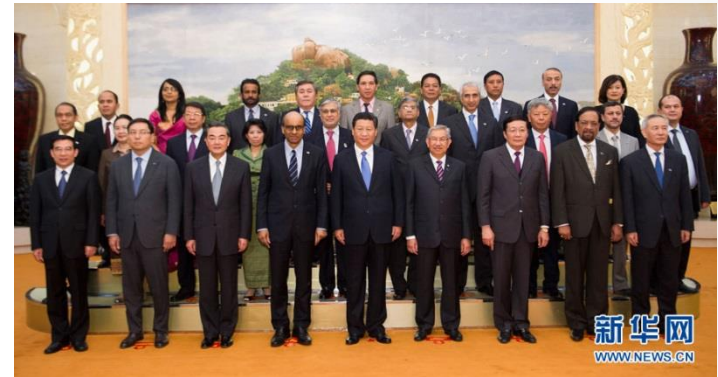
Aki Sakabe-MORI

University of Tsukuba, JAPAN

China seeks new foreign policy

Emerging “new concepts” of Xi Jinping administration

- Silk Road Economic Belt both on sea and land
“一带一路”
Asian Infrastructure Investment Bank (AIIB)



- ❑ China increases influence in the region
- ❑ From a reluctant rising power to a proactive “institutional builder”

Creation of the Asian Infrastructure Investment Bank (AIIB)

- China explains that the AIIB can be a “complement” to the IMF, World Bank, and Asian Development Bank (ADB)”
- Massive demand for infrastructure building across Asia; \$8.2 trillion forecast for 2010–2020 (ADB 2012)
- Unsuccessful reform to reflect new balance of economic power at IMF and ADB
- AIIB: Initial capital: \$100 billion
China’s huge voting power $\hat{=}$ 50% of \$100 billion

China is creating its own institution rather than just following the existing international financial system

China calls for developed countries to join

- 24 members of the AIIB: India, ASEAN, NZ, etc.
- ROK and Australia: not participating, but positive
- US: AIIB will “make it onto the agenda of high-level talks” (Department of State, November 7, 2014)

❑ For ASEAN states : Good news

❑ For Key developed states : Complexity

-China challenges the role of Japan in region

Behind the scenes

Discussion on the AIIB between China and Japan

- China invited Japan to join the AIIB around spring 2014
“join first, then work on problem-solving”
→Why does China need developed countries to join the AIIB?
- Japanese doubt China’s intentions
“for debt-sharing rather than working together”
- Discussions on the AIIB in Japan
 - Kantei (Prime Minister and his cabinet)
 - Bureaucrats
 - Business sector
 - Scholars

❑ Abe administration highly unlikely to join the AIIB in its current form, but there are wider discussions for a strategic choice

The opportunity and challenge of the AIIB

□ Opportunity

- To meet massive needs of building infrastructure in Asia

□ Challenge

- Governance: China's huge voting power without oversight system
- Transparency: fear of devaluing the existing lending standards on environmental protection, human rights
- Sustainability: Are those infrastructure projects really producing sustainable economic development?

□ What are the best means for better governance of and transparency in the new investment bank?

Competition or a Strategic Choice?

□ Key developed states

- A: Better in than out, reform from inside
- B: Stay away from AIIB, balance it
- C: Don't join, but seek cooperation among donors

□ China

- A: Be trustworthy
 - better governance
 - self-constraint
- B: Confidence deficit
 - just commit to own political/commercial interests

Conclusion

- US, Japan, ROK, and Australia have leverage when they do NOT join the AIIB easily
 - but only as long as China needs to learn from key developed states
- policy coordination among key developed states
 - for not joining too easily
 - join the AIIB at the same time