Asian Infrastructure Investment Bank Sparks Debates in Asia and Beyond

Decisions by America's European allies—the U.K., Germany, France, and Italy—to join the Asian Infrastructure Investment Bank (AIIB), a new China-led multilateral development institution for Asia, generated debates about Beijing's potential challenge to existing global financial institutions, such as the IMF, the World Bank, and the Asian Development Bank (ADB), and about Washington's response to this challenge. Despite its initial opposition to the Chinese initiative, the Obama administration recently reversed its position, proposing to co-finance projects with the AIIB by utilizing existing multilateral institutions. In this Policy Alert, we examine commentary from China, Japan, and South Korea, as well as the United States and European countries on the AIIB.

CHINA
Responding to U.S. concerns regarding the bank's standards of governance, some Chinese media brushed over these concerns, instead urging the United States to 'get on the boat.'

- "China-proposed AIIB is a gift to world," proclaimed one China Daily headline. Responding to concern from the United States regarding the new bank's standards, the article retorted that such a response "perplexes China because the U.S. government has been urging China to exercise leadership compatible with its growing strength by providing more resources for development and other global goals...Rather than standing outside frowning, the U.S. might as well consider the choice of getting on the boat to share its rich experience in managing international banks."
- Another China Daily stated, "It is of little help to worry about the AIIB's possibility to erode multilateral institutions and to re-create world power structures as the bank is nothing but a nice complement to the system of global governance." However, the editorial added, "It is high time for those who are still hovering outside the new-born international financial body to get on the boat."
- "Washington can hardly complain about its sideline status. It was invited to take part in the AIIB. Not joining it is a choice made by the US government. But the US has not only refused to play, it has lobbied Australia, the Republic of Korea, Indonesia, as well as European countries not to join in," criticized yet another China Daily op-ed.
- "Many people are worried that China's diplomatic environment may be manipulated by the US, but the evolution of the AIIB shows that China is its own master. Perhaps the U.S. may become a member of the AIIB one day," wrote the Global Times.

Other articles took a more conciliatory approach, insisting that the AIIB is an open platform for inclusive development.

- When asked whether China would be willing to cooperate with the U.S. on the AIIB, Foreign Ministry spokesman Hong Lei stated in a press conference Monday that China upholds an
open and inclusive attitude in the building and operation of the AIIB. Lei added that the Obama administration's proposal of a formal partnership between the AIIB and Western development institutions reported Sunday shows the AIIB's mission of funding infrastructure projects in Asian countries has gained wide recognition.

- "Concerns about the new bank's standards of governance and environmental and social safeguards can also be dispelled as China has envisioned the AIIB to be an open and transparent multilateral organization," reported the state-run Xinhua.
- "The establishment of the AIIB will be complementary to the ADB and other multilateral financial institutions, including the World Bank," stated Jin Liqun, secretary-general of the Multilateral Interim Secretariat for Establishing the AIIB.

Several commentaries pondered how the AIIB's development will influence China's international status

- "China is already a major power, but the AIIB grants it for the first time a leadership role in the world's financial affairs. Among the countries that have applied, there are big European powers as well as those that China has territorial disputes with. It tests China's wisdom and flexibility in handling different opinions and demands," wrote the Global Times.
- "It is unrealistic to wish for no rivalry between China and the US. But the rivalry can be positive and interesting. A new type of major power relations will sooner or later face a rising China, which is the foundation for both countries to adopt innovative ways to handle their competition," opined another Global Times editorial regarding the AIIB's rise.

JAPAN
Japanese officials remained cautious about joining the AIIB, raising concerns about its governance and transparency.

- Japan may join the AIIB if certain conditions are met, said Finance Minister Taro Aso. "Who will decide on extending loans through the AIIB? If reviews of loan applications are not strictly conducted, it could have a negative impact on the International Monetary Fund and the Asian Development Bank... If those concerns are resolved, Japan may join talks to discuss the proportion [each nation will invest in the AIIB]."
- Chief Cabinet Secretary Yoshihide Suga also expressed concerns, saying that Japan "remains cautious about joining [the AIIB]. Aso shares this stance, so his remarks probably indicate [that Tokyo] will never participate unless all concerns are settled."
- The Sankei Shimbun showed support for the government's decision not to join the AIIB, warning against a possible "arbitral governance" by China and lack of transparency in the institution.
- The Japan Times offered a different view pushing for the U.S. to work with the AIIB. "Washington appears to be rejecting a Chinese initiative that meets an important regional need, merely because it is a Chinese initiative... The U.S. should reconsider and be ready to push for reform within the AIIB, rather than from a distance."

SOUTH KOREA
The South Korean government has only indicated that it is "considering" joining the AIIB. Korean newspapers debated whether the country should sign up for the Chinese-led initiative.

- "[T]he U.S. is becoming more and more isolated internationally in regard to the question of joining the AIIB. Not only the UK but also France, Germany, and Italy are moving toward joining the bank, and there is increasing support for joining inside the U.S. as well," The Hankyoreh posited.
- The Hankyoreh continued, "The situation is such that there is no reason for South Korea to delay joining either. If South Korea continues to hesitate out of concern for what the U.S. will think, it is likely to damage the national interest by reducing South Korean influence in the bank. The practical way to address concerns such as China's domination of the control structure is by participating in the bank."
- "Strategically and economically, Korea's participation in the AIIB is an obvious move," contended the JoongAng Ilbo. Since the country suffered a great deal when accepting the
painful reforms demanded by the IMF and the U.S. during the Asian financial crisis, "[i]t is better to have rivals, Washington vs. Beijing, the NDB (New Development Bank led by BRICs) and the AIIB against the IMF and ADB."

- *The Chosun Ilbo* attacked the government's indecisiveness, arguing that it has been "wishy-washy" about joining multilateral trade initiatives in the Asia-Pacific region," including the AIIB, the Trans-Pacific Partnership, and the Regional Comprehensive Economic Partnership. "It is deplorable for an export-dependent country like Korea to show such a lack of initiative."

**WESTERN COUNTRIES**

- IMF chief Christine Lagarde said that the IMF would be "delighted" to cooperate with the AIIB, and that the two institutions have "massive" room for cooperation.
- "Any new initiative that will mobilize funding in order to fill infrastructure gap is certainly welcome. The World Bank *really welcomes* the AIIB initiative," World Bank managing director Mulayani Indrawati commented in an interview with *Xinhua*.
- "The story of the Asian Infrastructure Investment Bank is turning into a *diplomatic debacle* for the U.S. By setting up and then losing a power struggle with China, Washington has sent an unintended signal about the drift of power and influence in the 21st century," wrote *Financial Times* chief foreign policy columnist Gideon Rachman.
- *The New York Times* called the issue surrounding the AIIB "a problem of America's own making." The U.S. has blocked China from taking more leadership by not welcoming the Chinese for the top posts at the IMF, the World Bank, and the ADB, and by not ratifying IMF reforms demanded by Beijing. It has also failed to work with its allies to negotiate with the Chinese in establishing the AIIB.
- Reforming the IMF to allow greater Chinese influence "now would be probably too little too late to reverse the AIIB's momentum," argued *The Washington Post*. "Mr. Obama's *best bet* is to redouble efforts to shore up World Bank funding, and to win congressional approval for the Trans-Pacific Partnership (TPP) free-trade arrangement...while establishing a regional economic framework built on Western-style economics rather than Chinese mercantilism."

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**Rising Powers Initiative**

Sigur Center for Asian Studies
The Elliott School of International Affairs

1957 E St., NW, Suite 503
Washington, D.C. 20052

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