

PRESENTATION



# Rethinking Post-2015 Development

## Conceptual and Policy Implications Beyond MDGs

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# Interpret the Asian Infrastructure Investment Bank (AIIB) from the perspective of global financial governance

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# Background

- It is well known the global financial crisis in 2008 had a devastating effects not only on United States and the North, but also on the large amount of developing countries. During that period, the South has experienced a 'good crisis' which meant that "the West has lost the moral authority to lecture the non-Western countries on the 'proper' way to organize and regulate their economies" (Craig & Kevin 2013). Moreover, according to Sophie Harman and David Williams, the global financial crisis is a crisis of governance (Sophie & David, 2013). These arguments indicate the current global financial governance, based on Western standard, has been criticized and challenged more seriously than ever before. Therefore, it can be understood why there are certain aspirations and motivations, among the developing economies, for some changes and adapts in global financial governance.

# Review the birth of AIIB: a timeline

- On 2<sup>nd</sup> October 2013, President Xi Jinping proposed establishing an Asian Infrastructure Investment Bank (AIIB) to promote economic integration in the region on a visit to Indonesia;
- On 24<sup>th</sup> October 2014 in Beijing, representatives from 21 Asian countries signed the Memorandum of Understanding on Establishing AIIB;
- In March 2015, it was striking that Britain, France, Germany, who are considered as the traditional US allies, have successively applied for the founding membership of AIIB;
- On 15<sup>th</sup> April 2015, China's Vice Finance Minister Shi Yaobin said in an interview, "the AIIB has 57 countries as founding members, among those 37 are Asian countries, 20 are countries from outside the region."

# Core question

What are the drivers of the birth of AIIB under the current US dominated system of global financial governance?

# Drivers of AIIB

- Global level
- Regional level
- National level

# Global level


- **Revisit the evolution of global financial governance:**
- 1944-1971: Bretton Woods System (US dominated, IMF & IBRD/WB)
- 1966: ADB (an imitation of WB by Japan)
- 1975: G7 (US and EU, the collapse of BWS and the rise of EU)
- 1998: G8 (US, EU and Russia)
- 1999: G20 (Asian financial crisis, Finance Ministers and Central Bank Governors' level, developed and developing countries)
- 2008: G20 (Global financial crisis, Presidents' level)

# Global level

- As we saw from the evolution of the global financial governance (GFG), taking the G20 for instance, it could be clearly discovered that emerging countries have been gradually integrated into the system of GFG based on their increased significance to world economy. However, this system is only becoming relative inclusive and representative but not absolute, it is still be dominated by US and the western rules.



# 10 largest world economies (PPP)

Rank	2000**	2010	2020
1	 U.S.	 U.S.	 China
2	 Japan	 China	 U.S.
3	 Germany	 Japan	 India
4	 France	 India	 Japan
5	 U.K.	 Germany	 Russia
6	 Italy	 Russia	 Germany
7	 China	 U.K.	 Brazil
8	 Brazil	 France	 U.K.
9	 Canada	 Brazil	 France
10	 Spain	 Italy	 Mexico

Source: World Bank

# 10 largest voting powers in WB & IMF

Countries	Voting power in WB (%)	Countries	Voting power in IMF (%)
1. United States	16.21%	1. United States	16.75%
2. Japan	7.51%	2. Germany	5.81%
3. China	4.85%	3. Japan	6.23%
4. Germany	4.40%	4. United Kingdom	4.29%
5. United Kingdom	3.95%	5. France	4.29%
6. France	3.95%	6. China	3.81%
7. India	3.06%	7. Italy	3.16%
8. Saudi Arabia	3.04%	8. Saudi Arabia	2.80%
9. Russia	2.84%	9. Canada	2.56%
10. Italy	2.48%	10. Russia	2.39%

Source: World Bank and IMF

# Global level

- By comparing the above two tables, it can be found that emerging countries, especially China, do not have proportionate voting powers in WB and IMF according to their economic capabilities. More seriously, the governments of big developing countries have become frustrated with the unwillingness of Western countries to adjust the distribution of power in the fund in line with their rising economic weight. Last year, international financial reform has suffered a serious blow after the US Congress refused to ratify a capital increase for the IMF. This kind of frustration has encouraged emerging countries to explore bypass institutions and to struggle for more rights to speak and make rules, the China-led AIIB is a good example.

# Global level

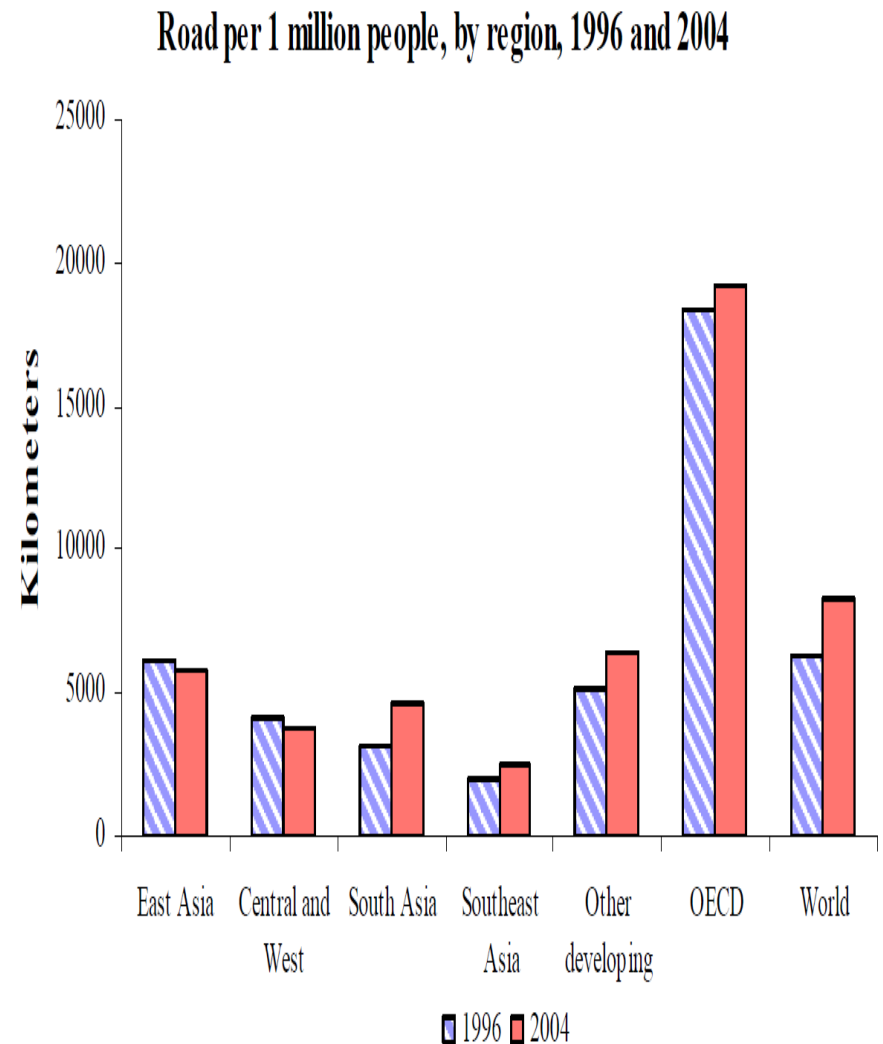
- It is reported that the amount of capital raising of AIIB is designed to be 100 billion US dollars. Asian countries contribute 75%, and the other 25% is contributed by countries outside Asia. By country, China will become the largest shareholder by contributing 33%, followed by India (6.8%), Australia (5.6%), Germany (4.7%), and South Korea could probably become the fifth largest shareholder.
- Based on the above statistics, it is reasonable to predict that China and other emerging countries could enhance their discourse power and decision-making power in global financial governance.

# Regional level

- Despite the significant economic growth enjoyed by countries such as China, India, and South Korea in recent decades, many countries among the developing Asian region are still mired in poverty, suffering from a profound lack of access to modern-day necessities such as sanitation, a reliable power grid, and adequate transportation and communications networks.

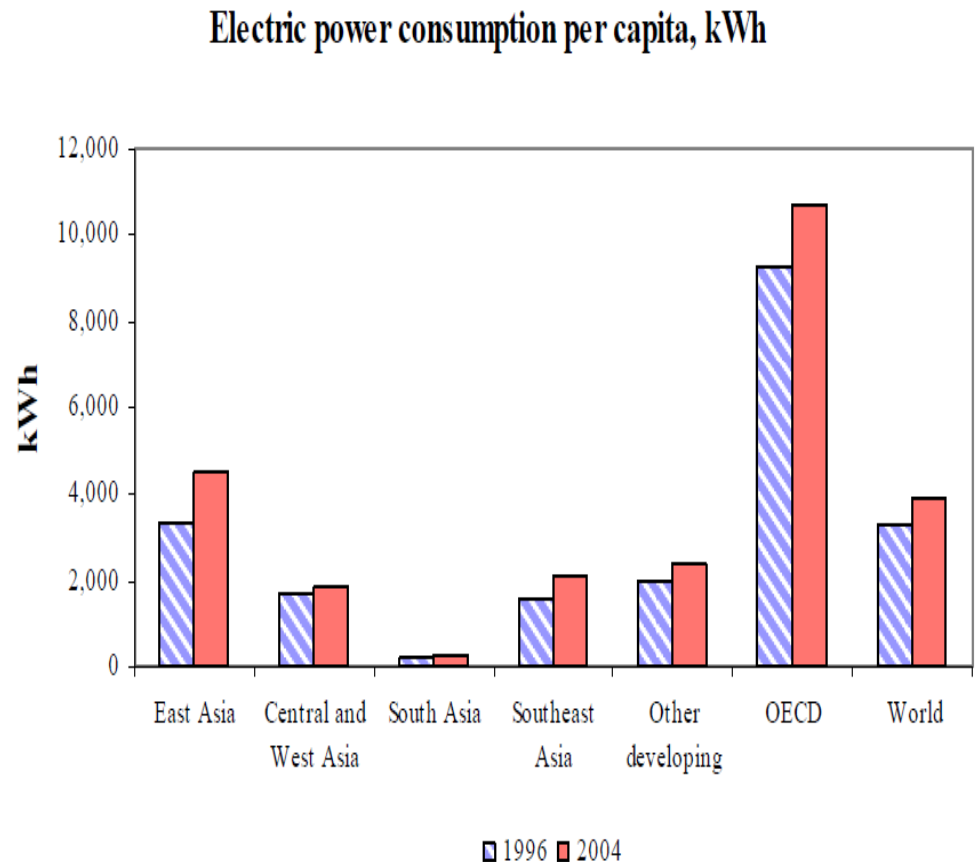
# Regional level

- According to ADB, transport infrastructure development varies across countries in the region. Some countries show a progressive pattern while others suffer a declining trend. Although East and Southeast Asia are increasing their coverage of paved roads, the quality of road network is still much lower than OECD countries, and Asia has significantly lower road length per one million people than the OECD average. The region's rail network totaled 182 thousand kilometers, or around two fifths of the OECD's 472 thousand kilometers in 2005. The gap is even bigger when comparing rail lines per person and per land area.



# Regional level

- In 2004, Asia produced 4,057 billion kWh of electric power and consumed 3,630 billion kWh of electricity. Although both electricity production and consumption almost doubled the levels of 1996, Asia still remains below OECD levels.



# Regional level

- According to the statistics from World Bank, despite dramatic increase in the telephone density (including the mobile and fixed line phones) and the number of internet users, Asia, as a whole, still lags behind OECD levels in the area of telecommunication infrastructure.

**Table A.11: Mobile and Mainline Phone Subscribers, by Region, 1996 and 2005**

Region	Telephone Subscribers by 1,000 People		Telephone Subscribers per 1,000 People		Mobile Phone Subscribers, Thousand		Mobile Phone Subscribers per 1,000 People		Telephone Mainlines by 1,000 People		Telephone Mainlines per 1,000 People	
	1996	2005	1996	2005	1996	2005	1996	2005	1996	2005	1996	2005
Developing Asia and the Pacific												
East Asia	89,500.0	819,000.0	333.9	983.4	11,400.0	441,000.0	71.9	641.4	78,100.0	378,000.0	262.1	342.0
Central and West Asia	8,679.5	23,700.0	78.8	190.2	107.0	24,500.0	0.4	146.9	8,572.5	13,000.0	78.4	94.9
The Pacific	165.4	382.0	50.9	119.5	7.1	294.2	1.9	82.3	158.2	208.4	49.0	63.2
South Asia	15,700.0	155,000.0	18.4	189.0	403.0	103,000.0	0.7	141.9	15,200.0	52,600.0	17.7	47.1
Southeast Asia	22,300.0	190,000.0	110.1	458.2	5,420.6	144,000.0	26.9	349.4	16,900.0	45,800.0	83.2	113.4
Other developing	158,000.0	924,000.0	107.3	495.5	10,600.0	692,000.0	8.3	358.2	150,000.0	268,000.0	99.0	138.5
OECD <sup>1</sup>	569,000.0	1,200,000.0	665.0	1,466.6	114,000.0	732,000.0	136.5	960.1	455,000.0	482,000.0	528.5	528.7
World <sup>2</sup>	863,344.9	3,312,082.0	177.5	591.0	141,937.8	2,136,794.2	26.3	410.5	723,930.7	1,239,608.4	151.2	185.3

Note: 1 Czech Republic, Hungary, Mexico, Poland, Slovak Republic, Turkey, and Republic of Korea are not included in OECD average as they are grouped into developing countries. Other 23 OECD economies are included.

2 The world aggregates were estimated based available data from 179 countries

Source: World Bank 2007b.



# Regional level

- Asia's growing populations and economies demand dramatic infrastructure improvements that require dauntingly large capital investments. In 2009, Asia Development Bank stated: "During 2010–2020, Asia needs to invest around \$8 trillion in overall national infrastructure, including \$2.5 trillion for roads and railroads, \$4.1 trillion for power plants and transmission, and \$1.1 trillion for telecommunications, and \$0.4 trillion for water and sanitation investments."

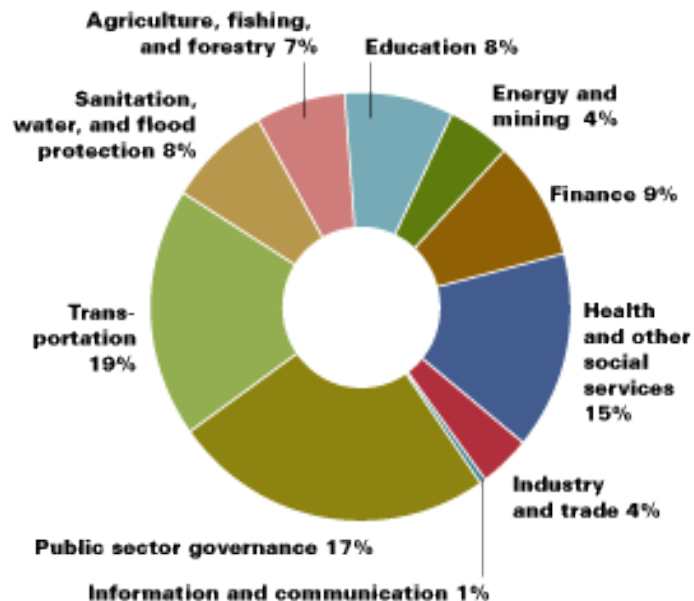


# Regional level

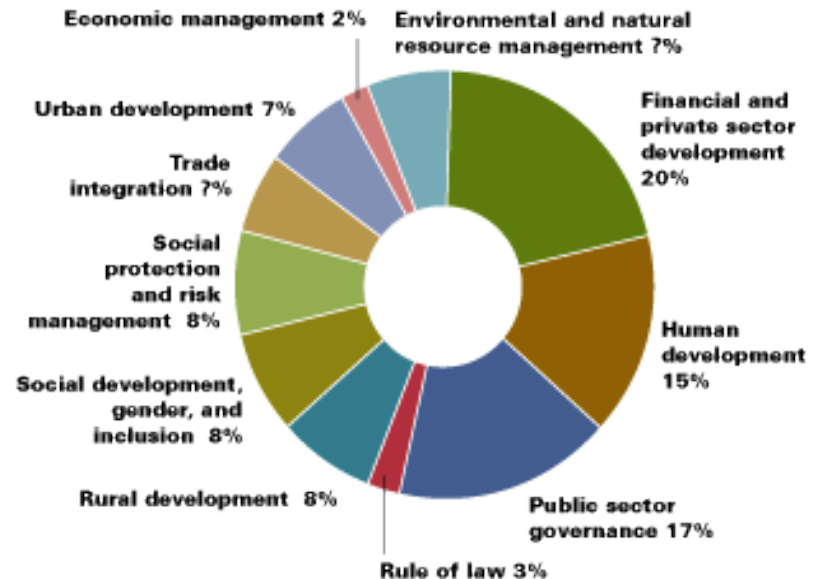
- However, the ADB and the World Bank have a combined capital base of less than \$400 billion, which must support a wide variety of lending programs beyond infrastructure.

**Figure 5** Total World Bank Lending, Fiscal 2004  
share of total lending of \$20.1 billion

By sector



By theme



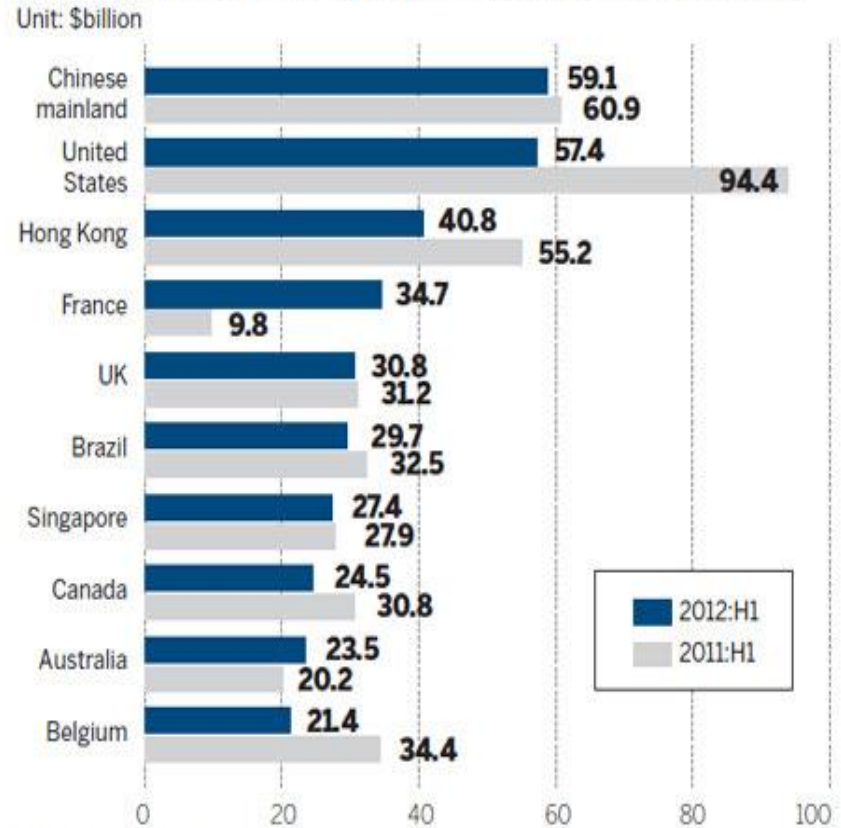
# Regional level

- Therefore, according to Professor Miriam Campanella from Turin University, “the China-led Asian Infrastructure Investment Bank (AIIB) will serve to ease the looming liquidity drought in infrastructure financing. As the World Bank and the Asian Development Bank move toward concessional lending and knowledge sharing with low income countries, the AIIB is left with an important niche to fill.”
- Moreover, during the last APEC summit in Beijing, China’s President Xi Jinping ever expressed, “China is able and willing to provide more public goods for the Asia-Pacific and the world, as its overall national strength grows.”
- By launching AIIB with a \$100 billion capital base, on one hand, it could finance the regional infrastructure construction and economic development, on the other hand, it could also elevate the Chinese currency, the Yuan, to compete with the U.S. dollar and the Japanese Yen as the region’s reserve currency.

# National level

- Since the open and reform in the late 1970s, China has realized its economic modernization based on large amount of inflows of FDI in terms of infrastructure construction, technological innovation, manufacture development, domestic capital formation, market reform, etc. This process is named as “Welcoming in” (引进来). From the right chart, it can be discovered that global FDI inflows of China (mainland) has already passed United States in the first half of 2012.

**GLOBAL FDI INFLOWS:  
TOP 10 HOST ECONOMIES, 2011:H1-2012:H1**

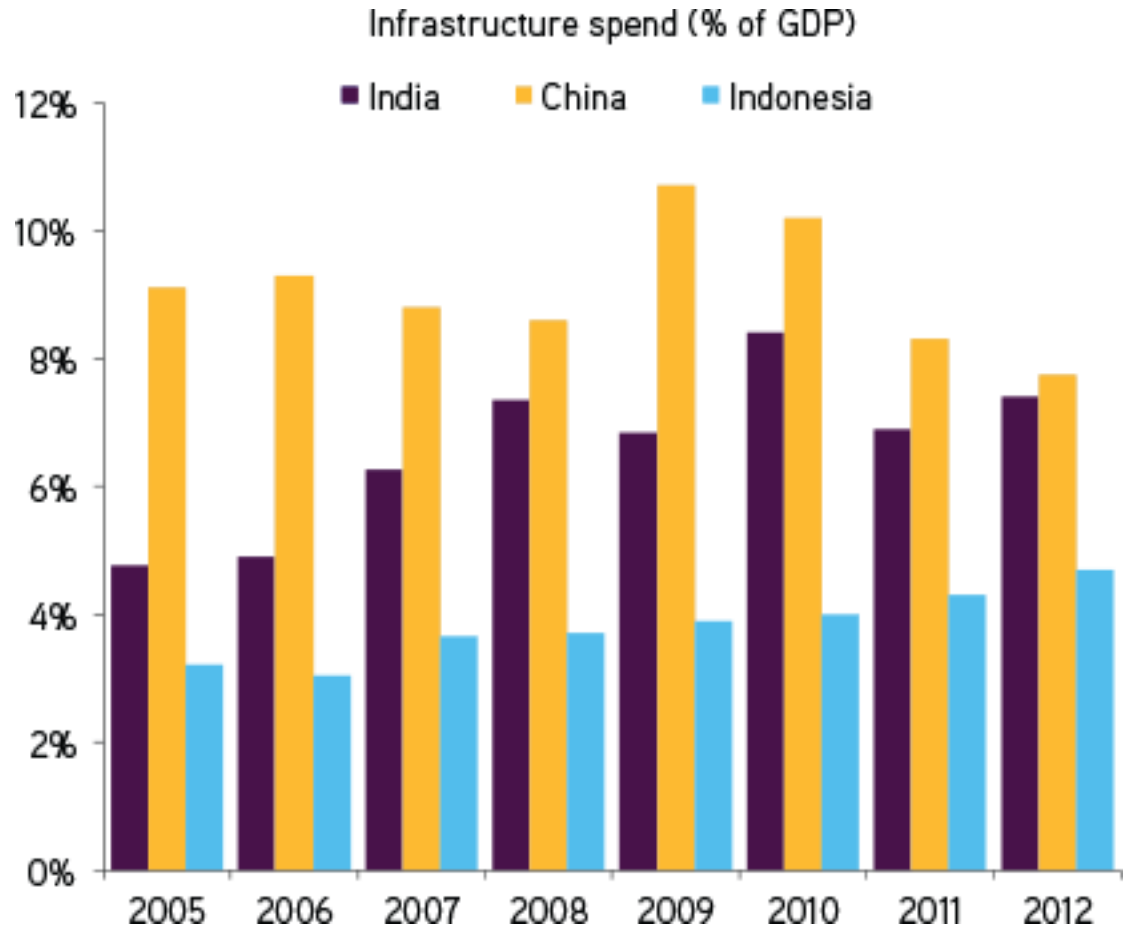


Abbreviation: H1-first half of the year.  
Source: UNCTAD

ZHANGYE / CHINA DAILY

# National level

- More specifically, China's current economic success can be largely rely on the fast infrastructure development in the last 3 decades by taking advantage of the investment from foreign countries. According to a Morgan Stanley research, between 2005 to 2012, China's infrastructure spend (% of GDP) was always larger than other emerging countries such as India and Indonesia.



# National level

- However, it is necessary to acknowledge that huge infrastructure spend is a double-edged sword. On one hand, it really promoted the economic booming and prosperity in China; on the other hand, as China overemphasized the importance of infrastructure development in reaching the target of high GDP growth, it also brought about some problems, like excess production capacity, domestic consumption decrease and real estate bubble, which are gradually becoming potential threats to China's economic stability and sustainable development.

# National level

- Therefore, China has launched its “Going out strategy” (走出去) in recent years. The main targets of “Going out strategy” are as followed:
- (1) Relieve the problem of domestic excess production capacity by searching for overseas market;
- (2) Promote the neighbors’ infrastructure development which could benefit the bilateral and multilateral cooperation and trading in the long term;
- (3) Enhance the competitive power of China’s state-owned enterprises (SOEs) and private companies;
- (4) Accelerate the transformation and upgrading of domestic industrial structure, from labor intensive industry to technological innovative industry;
- (5) .....

# National level

- By listing the targets of “Going out strategy”, it is not difficult to understand the national driver/ domestic driver of initiating the AIIB.
- In other words, at the national level, the birth of AIIB could be considered as a key impetus for sustaining China’s economic growth more healthy and stable.
- Meanwhile, as a financing channel, AIIB could lead China’s surplus capital to the places where lack of investment. Then it could promote the international financial balance and preserve the financial stability.



# More questions & remarks

- Will China take advantage of AIIB to establish an alternative system of global financial governance?
- Personally, I don't think so.
- (1) China has benefited quite a lot from integrating into the capitalist world system. China has been used to following most of the rules and principles the West made. Thus, China has no intention to overturn the current world order;
- (2) Although China is becoming more stronger than ever before after the Second World War and passed US as the largest economy on PPP, China still lacks much capacity to challenge the West-dominated system (Ikenberry);
- (3) Referring to the so called "reforms" or "challenges", China indeed wants to make some changes and ask for more powers inside the system rather than to build another system;
- (4) AIIB probably use US dollar as currency of settlement. Chinese Yuan is still not a global currency to replace US dollar.

# More questions & remarks

- AIIB is a big rivalry towards WB and ADB?
- My answer is no.
- (1) As shown above, the main targets of AIIB differ from the ones of WB and ADB. What AIIB is going to do is to fill the financing gap in Asian infrastructure development where WB's and ADB's investment is in a small amount;
- (2) After the global financial crisis, WB, IMF and ADB have been criticized a lot, but they are still the mainstream and pillars in global financial governance. China-led AIIB should cooperate with these major institutions if it wants to develop well;
- (3) The traditional institutions and new institutions are more complementary with each other rather than conflictual.

# More questions & remarks

- How to understand the Western advanced countries, the traditional US allies, join the China-led AIIB?
- (1) We are living in an interdependent world, the wide spreading of globalization has led to a situation as “you are among us and we are among you” (你中有我，我中有你);
- (2) The nature of capital is to look after possible profits, especially after the financial crisis and euro debt crisis;
- (3) These Western advanced countries have much experiences in operating the modern financial institutions like WB and IMF, thus those countries could be helpful to the establishment and operation of AIIB.

# More questions & remarks

- There are still several uncertainties for the development of AIIB.
- (1) China's strategic considerations are not so clear that other countries are still riding the fence;
- (2) There are some competitions and contradictions among emerging powers from the political, economic perspectives. These factors will surely influence the development of AIIB;
- (3) Up to present, the China-led AIIB is mainly a profit-based institution. The norms, values are not yet be claimed. The issues on transparency, credibility and accountability are still needed to be elaborated in the next stage.

Thanks for your kind attention.