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The Increasing Presence of the Asian Infrastructure Investment Bank (AIIB)

~ Future Roles of Japan ~

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On May 13, 2017, the Asian Infrastructure Investment Bank (AIIB) announced that seven new countries (Chile, Greece, Bolivia, Romania, Bahrain, Cyprus, and Samoa) joined. AIIB, which started operations in January 2016 with a membership of 57 countries, soon announced that another 13 countries / regions including Canada, Belgium, Hong Kong, etc. joined it in March 2017. AIIB now has 77 members and members exceeded the number of the Asian Development Bank (ADB) (67 members).

The purpose of establishment of AIIB is described in Article 1 of the “Articles of Agreement”¹.

- ① To foster sustainable economic development, create wealth and improve infrastructure connectively in Asia by investing in infrastructure and other productive sectors.
- ② To promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions.

In fact, the demand for infrastructure in emerging and developing countries in the Asian region is large. ADB also reported that it is necessary to invest 1.7 trillion USD annually by 2030 (which is more than double the amount of estimate that was predicted in 2009)², which suggests that the needed investment has expanded to a scale that cannot be dealt with only by existing Multilateral Development Banks (MDBs)³ such as the World Bank and ADB. In addition, there may have been in the background of the establishment of AIIB the situations that existing MDBs are composed and operated mainly by European countries and the USA (including

¹ Refer to <https://www.aiib.org/en/policies-strategies/download/asian-infrastructure/20160202043950310.pdf>

² Refer to [Meeting Asia's Infrastructure Needs \(ADB, Feb 2017\)](#)

³ Generally referred to 5 existing institutions of “World Bank Group”, “Asian Development Bank (ADB)”, “Inter-American Development Bank Group (IDB)”, “African Development Bank Group (AfDB)”, “European Bank for Reconstruction and Development (EBRD)”, plus “New Development Bank (NDB)” (Established in July 2014) and “Asian Infrastructure Investment Bank (AIIB)” (Established in October 2014).

Japan) and that it takes time to approve their projects.

Currently, many countries around the world and existing MDBs are receiving favorably the establishment of the new MDBs that promote infrastructure investment in the Asian region. On April 23rd, 2017, the World Bank and AIIB signed in Washington DC a memorandum on deepening cooperation between them. Also, Mr. Haruhiko Kuroda (President of the Bank of Japan and former President of ADB) stated at the ADB Annual Meeting on May 4th that establishing AIIB "is welcomed" to meet the huge demand for infrastructure in Asia and recognized that it would not compete with ADB. Further on May 16th, the Inter-American Development Bank Group ("Inter-American Development Bank (IDB)" and "Inter-American Investment Corporation (IIC)") signed "Memorandum of Understanding" with AIIB.

Under these circumstances, only two of the G7 countries (USA and Japan) have not participated in AIIB. On May 14th, 2017, Japanese team visiting China, headed by Mr. Toshihiro Nikai (Secretary General of Liberal Democratic Party), attended an international conference held in Beijing on the initiative of China-led wide area economic zone "One Belt One Road" plan, and Mr. Nikai indicated the necessity for Japan to participate in AIIB before it would not be left far behind. In addition, some ex-prime ministers, opposition party leaders, and economic groups have been urging the government to participate in AIIB promptly in order to capture the Asian infrastructure demand.

On the other hand, on May 15th, 2017, Prime Minister Shinzo Abe interviewed with some media, and explained why Japan was passing up the participation in AIIB. He said that it is because there are doubts about AIIB at present on,

- ① Whether it can secure a fair governance structure.
- ② Whether it can ensure a sustainable lending system.
- ③ Whether consideration is given to the environment and society in its projects.

He also indicated that the government would continue to monitor the operation of AIIB. However, as mentioned above, with a rapid increase in infrastructure demand in the Asian region, it is also a reality that the existing MDBs cannot meet the needs by themselves alone quickly.

So far, AIIB has approved 13 projects (total of about 2.2 billion USD), 10 of which (total of about 1.7 billion USD) are co-financed with existing MDBs such as the World Bank and ADB. Under such circumstances, Japan should encourage AIIB to share, through such co-financings, Know-hows on governance systems and loan screening expertise that have been accumulated in ADB since its establishment in 1966.

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