

AIIB as a Strategic Counterbalance for Western Financial Institutions

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Abstract:The Asian Infrastructure Investment Bank (AIIB) is a new international financial institution set up in 2015 with the goal of supporting the construction of infrastructure in the Asia-Pacific region. Meanwhile, the International Monetary Fund (IMF) and the World Bank (WB) were formed together in Bretton Woods, New Hampshire in July 1944. Both are set up to support the world economy, although each has different roles. The role of the International Monetary Fund is to protect the monetary system. Meanwhile, the World Bank plays a role in economic development. Although the size and potential of the AIIB is smaller, it is not so different from the IMF and the WB. Thus, the AIIB is considered a competitor of the IMF and WB and will bring challenges to the existence of the Bretton Woods system with the two leading WB and IMF financial institutions. In addition, according to expert opinion, the AIIB does not have austerity policies such as IMF, so the AIIB will quickly take over many sectors in the economy outside Asia as well as Europe, especially Eastern Europe. This will alleviate the importance, scale and potential of the two largest financial institutions in the world, the IMF and WB.

Keywords: IMF, WB, AIIB, competitiveness, substitution, ASEAN.

JEL classification:F00, F02, F30

1. Introduction

To address Asian infrastructure investment, the WB (World Bank) and ADB (Asian Development Bank) provided \$15 billion and \$13 billion annually (Kawai, 2015). But according to the ADB Institute report in September 2010, Asia needs to finance \$776 billion in infrastructure in the period 2010-2020 to meet the increasing needs of various sectors including transport, water, energy and sanitation (Bhattacharyay, 2010). With extraordinary economic growth in the past few decades, China is looking for power over other economic powerhouses in the world (Deborah, 2015). China recently has strengthened its global economic governance by implementing a series of high-level institutions which are widely regarded as a clear statement of intent from Beijing. They want to challenge America's position as the only superpower (Jeremy, 2015) and shape the rules of investment and business in Asia (Robert, 2015). In spite of US opposing efforts, AIIB, a new multilateral lender, has opened its doors in Beijing, with initial capital of \$100 billion (Mishra, 2016). Beijing has rallied 57 AIIB member nations, including a series of loyal superpower allies in Europe and Asia-Pacific. Western critics have accused the AIIB of being a means designed to achieve Chinese goals (Jeffrey, 2017). AIIB is helping China in a long-term to be back on track of becoming a great global power. On one hand, the AIIB has done its work by boosting the disproportionate representation and position of China and other developing countries in the world financial order and also in terms of the speed of regulatory reform in the Bretton Woods system. On the other hand, by offering a real alternative, with China as the largest shareholder AIIB also reinforces the urgency of reforming the old decade financial system to support emerging powers and promote the more balanced global economic governance (Thomas, 2015). Ironically, after the AIIB began its operation, senior American officials publicly campaign allies and partners to avoid the project, perhaps because the AIIB would threaten the position of its counterparts in Bretton Woods and threaten the world financial order by offering poor record of lending standards (Jonathan, 2015). While a host of major Western economies have opted in and shaped the rules from within, the United States and Japan remain on the fringes of China's ulterior motives of shaping such a new financial lending order for its narrow economic or political ends. The AIIB is a threat to the existing institutions, the governance and development of international finance. The similarity of AIIB with existing multilateral development banks consists in that the AIIB functions similarly to the WB, but with extended conditions and also creates a monetary fund similar to the IMF. According to experts, the AIIB does