

# Agreement signed on China-backed investment bank

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The China-backed \$100 billion Asia Infrastructure Investment Bank (AIIB) has moved a step closer to commencing operations following a three-day meeting by the 57 founding members in Singapore this week that set up the bank's articles of agreement.

The official statement from the meeting provided few details apart from saying that the articles of agreement should be ready for an official signing ceremony at the end of June and indicating the AIIB should be operational by the end of the year. Negotiators also discussed a draft policy on the environmental and social framework of the bank's lending policies, a reference to US criticism that it will not meet international standards.

The US bitterly opposed the AIIB's establishment, urging its allies not to become founding members, because it threatens to cut across the operations of the IMF and World Bank, which Washington dominates, and the Asia Development Bank, controlled by its chief regional ally, Japan.

Those tensions again came to the surface during the course of the AIIB meeting with the announcement by Japan on Thursday that it would provide \$110 billion for Asian infrastructure projects.

The plan, announced by Prime Minister Shinzo Abe at a symposium of Asian officials and experts in Tokyo, represents a 30 percent increase in Japanese funding.

"We intend to actively make use of such funds in order to spread high-quality and innovative infrastructure throughout Asia, taking a long-term view," Abe said. The funds will be very much under Tokyo's control. About half will be made available through state-affiliated agencies in charge of aid and loans with the rest distributed in collaboration with the Asia Development Bank.

The aims of the Japanese initiative and its attempts to cut across the AIIB were clearly outlined in comments by Naoto Saito, an economist at Daiwa Institute of Research.

"Japan must have been provoked by the establishment of the Asia Infrastructure Investment Bank by China," he told Bloomberg. "Japan's investment will help promote infrastructure projects in Asia, expanding business opportunities for Japanese companies."

Significantly, in line with US criticism of the AIIB, Japan has pledged to provide "high quality" aid by assisting recipients with expertise in reducing pollution while building roads and railways.

In the same way that "humanitarian concerns" are used to justify imperialist military interventions, the US objections to the China-backed bank are being wrapped up in expressions of "concern" over whether it will meet environmental and labour standards.

The real reason is that the new institution weakens US economic domination. As president Obama recently told the *Wall Street Journal*, while touting support for the key US Asian economic initiative—the Trans Pacific Partnership—the deal is necessary so that America, rather than China, "writes the rules" for trade. The same issue is at stake with regard to the AIIB.

While the official statement provided no details about the financial structure of the bank, some information was provided by delegates in anonymous comments to journalists on the sidelines of the meeting.

Sources told Reuters that China would like to take a 25–30 percent share, the largest stake in the bank, with India the second largest shareholder at between 10–15 percent. It is expected that Indonesia, Germany and South Korea will be the next largest shareholders, all with just below 4 percent. Overall, Asian countries will

own between 72 and 75 percent with the rest held by European participants.

The delegates of the founding-member countries will take the proposals back to their respective legislatures for approval. Some expressed scepticism that the bank would be able to be up and running by the start of next year.

“It is uncertain if we can start from early next year,” one delegate commented on condition of anonymity. “China hopes that members will get such approvals by year-end and the operations start from next year. But I wonder if it is possible, given domestic political conditions in each country.”

While there may be some twists and turns in securing final agreement, the bank’s establishment represents a significant blow to the US which has used the IMF and World Bank to exercise economic hegemony. How closely the US has guarded its position was revealed in the immediate aftermath of the 1997–98 Asian financial crisis when Washington vetoed a proposal by Japan to set up a \$100 billion fund to assist financially-stricken countries, insisting that the US-dominated IMF had to play the lead role.

But the US attempts to thwart the AIIB and prevent European powers and its Asian allies from joining failed when Britain announced in March that it was signing on to become a founding member, prompting a rush to join by other European countries.

Some of the underlying motivations for the British decision were revealed in a speech by Barbara Woodward, the British ambassador to China, earlier this month. She said Britain wanted to be part of the AIIB and “become a strong force of positive growth in Asia and the world” and that it “will be good if we can share our experience with AIIB by participating in it early.”

The economic calculations underlying these sentiments, especially so far as the financial interests of the City of London are concerned, were also partially revealed. Woodward said that the UK had always paid great attention to building a strong relationship with China, noting that in the past five years, under the Cameron government, Chinese investment in Britain had grown by 85 percent annually.

This rapid increase points to the reasons why British chancellor George Osborne, as the direct representative of those interests in the Cameron cabinet, was so

insistent that British participation in the AIIB go ahead, notwithstanding objections from sections of the UK foreign policy establishment that it could disrupt the strategic relationship with the US.

In her speech, Woodward noted China was now Britain’s sixth largest trading partner, with bilateral trade rising to more than \$80 billion last year and the incoming Conservative government would make a “strong commitment to enhance the trade and investment with China.” Such a commitment, however, will see a rise in tensions with the US.



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