

AIIB, OBOR and Taiwan's AIIB Bid

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Abstract

China's launch of the Asian Infrastructure Investment Bank (AIIB) to support its "One Belt, One Road" (OBOR) economic strategy has both been received with great enthusiasm and has sparked debate in East Asia and beyond. This paper begins with a circumstantial analysis of the relationship between the AIIB and OBOR. Then, it explores the implications of Taiwan's prospective membership and the external and internal challenges to its bid to join the AIIB.

The paper finds a number of challenges and benefits of a prospective Taiwan membership in the institution. It concludes that Taiwan's participation in the China-led organization would not only encounter domestic divergence but also invite a power struggle between China and the U.S., thereby likely pulling Taipei into a great power confrontation. Nevertheless, membership would be beneficial for Taiwan's regional standing. So, the existing roadblocks, including the name issue, will have to be dealt with.

Keywords: AIIB, OBOR, Taiwan, China, U.S., Rule Setting

I. Introduction

China's launch of the Asian Infrastructure Investment Bank (AIIB) has been met with great enthusiasm and also has ignited debate in East Asia and beyond. Opinions have varied on the significance and geopolitical implications of the institution. While some have emphasized the systemic nature of the initiative as a trend setter and game changer, others view it as merely an extension of the existing financial-development models, if not merely a low-key financial institution with no prospects of achieving high standards and efficiency. Nonetheless, the wave of participation in the days following the AIIB's expansion, including the membership of close U.S. allies, in spite of Washington's explicit warnings, suggested that the AIIB might have more to it than meets the eye. Also, taken in the context of a broader strategy whose importance is embodied in the "One Belt, One Road" (OBOR) policy, the AIIB definitely deserves closer scrutiny and research.

This paper provides a circumstantial analysis of the AIIB and sets out to explore the implications of Taiwan's prospective membership. Then, it takes a closer look at the external and internal challenges to Taiwan's bid to join the organization. The paper finds a number of challenges and benefits of its prospective membership in the institution. It concludes that Taiwan's participation in the China-led organization would not only encounter domestic divergence but also invite power struggle between China and the U.S., thereby likely pulling Taipei into a great power confrontation. Nevertheless, membership would be beneficial for Taiwan's regional standing. So, the existing roadblocks, including the name issue, will have to be dealt with.

II. The AIIB – “One Belt, One Road” Nexus and its Significance

1. Origins of AIIB and OBOR

China initiated an *economic* strategy named “One Belt, One Road” (OBOR) to integrate the economies of a vast region that extends from East Asia to Central and South Asia, Europe, and Africa. The project consists of two legs: the Silk Road Economic Belt and the 21st Century Maritime Silk Road. First announced by President Xi Jinping in September 2013 during his visits to Kazakhstan (Silk Road Economic Belt) and Indonesia (Maritime Silk Road), the purpose of the strategy is to integrate a number of developing and developed nations through a network of overland road and rail routes, oil and gas pipelines, ports and other required coastal structures, telecommunications networks, and other infrastructure projects. When the project is materialized fully, OBOR is expected to integrate a large geographical area from East Asia to Russia, Central Asia, and Europe over land and extend to South and Southeast Asia, East Africa, and the northern Mediterranean over the sea.¹ China, being the policy initiator and the largest financial contributor to the projects, stands at the center of the entire scheme, which has appeared as one of the primary components of China’s 13th Five-Year Plan (2016-2020).

In the meantime, Beijing also announced the establishment of the AIIB on October 24, 2014, to provide funding for infrastructural development in Asia, which is, along with other projects, such as the BRICS Bank and the Silk Road Fund, designed to support the larger

1. Scott Kennedy & David A. Parker, “Building China’s ‘One Belt, One Road’,” *CSIS*, April 3, 2015, <<http://csis.org/publication/building-chinas-one-belt-one-road>>.

OBOR. In the first few months following the announcement, overall enthusiasm about the institution remained muted. The United States, meanwhile, openly urged its allies not to participate in the AIIB on the pretext that, under China's influence, it would not observe the high standards the established development funding regimes, such as the World Bank (WB) and the Asian Development Bank (ADB), do and eventually would disrupt the rules of the game. China, on the other hand, rejected the accusations and stressed that the AIIB would complement the existing global development schemes, rather than compete with them, adopt higher and more efficient standards, and ultimately provide public goods to many underdeveloped countries that are either ignored by the West-led institutions or are forced to accept harsh conditions to receive development loans.²

2. AIIB Momentum and its Significance

In spite of the U.S. pressure, the United Kingdom's expression of its wish to join the AIIB paved the way for many other developed countries in Asia and Europe, including France, Russia, Germany, Italy (four of the G7 nations), Austria, Australia, and South Korea, to declare their intention to join the organization. Among the major U.S. allies, only Japan and Canada opted not to participate in the institution. By the time the deadline set by Beijing arrived, 57 nations formally had submitted application documents to China's Foreign Ministry and had acquired Prospective Founding Member (PFM) status. China made it clear that any desiring nation that applied after the March 31st deadline would be given a regular member status, which took away most of the privileges of founding member status,

2. "Interview: AIIB agreement meets high standards, implementation to be 'real test': expert," *Xinhuanet*, July 23, 2015, <http://news.xinhuanet.com/english/2015-07/23/c_134441193.htm>.

which allows a greater say in the writing of the Bank's charter as well as veto power.

After the deadline, the 57 PFM states met on May 22 for a three-day meeting in Singapore to discuss the text of the articles of association. According to China's Finance Ministry, the sides agreed on the articles, which "call for the Asian Infrastructure Investment Bank to be overseen by an unpaid, nonresident board of directors, unlike the World Bank and the Asian Development Bank." To be headquartered in Beijing, it will have an open bidding procedure for all projects. Inside the AIIB's decision-making structure, China will have the greatest influence, making a \$29.78 billion USD contribution and having 25 to 30% of voting shares. This will enable Beijing to "retain veto power over major decisions" involving structure, membership, capital increases, and other significant issues.³ Giving at least 75% of veto power to its Asian members, the AIIB ensures that, unlike other international organizations, countries in the Asia-Pacific region greater say.

According to the Articles of Agreement (AOA) adopted at the Chief Negotiators' Meeting on May 22, 2015, the purpose of the Bank is two-fold: first, to "foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors;" second, to "promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions."⁴ Furthermore, the

3. Yangpeng Zheng, "China to retain veto power in new lender," *China Daily*, June 11, 2015, <http://europe.chinadaily.com.cn/business/2015-06/11/content_20968692.htm>.

4. "Articles of Agreement of the Asian Infrastructure Investment Bank (AIIB),"

AIIB states that it “will work in close cooperation with other international financial institutions and international organizations concerned with economic development of the region or the Bank’s operational areas. Its activities will complement and supplement the programs of both the existing and newly established multilateral development banks (MDBs), such as the New Development Bank.”

The momentum of the AIIB has surprised many states, including Taiwan. It was anticipated in the beginning that, because of its inherent design as an alternative, if not a rival, to the established economic institutions under U.S. patronage, the Western bloc and its regional extensions would object and decline to endorse it. Nevertheless, not only did U.S. historical-cultural allies, such as the UK and Australia, shrug off Washington’s objections, but some regional countries that are presented as China’s sworn enemies, such as Vietnam and the Philippines, also opted to take part in the AIIB.

It follows that the AIIB is a significant initiative not only due to its strategic function as a singular institution but also due to its significance in the larger framework in which China intends the Bank to function. Indeed, the AIIB can be viewed as one of the components, actually a significant one, of the enlarged economic-development system or network China has been working to construct. The framework finds its overall expression in the OBOR strategy, which is designed to place China at the center of global economic-logistical activity and reinforce it as the natural hub of the next stage of development to be spearheaded by the non-Western developing world.

To many Chinese, the OBOR strategy, then, arises in large part

August 14, 2015, p. 2, *AIIB*, <<http://www.aiib.org/uploadfile/2015/0814/20150814022158430.pdf>>.

from China's desire to integrate its "reform and opening up" and "going out" historical development stages with its near periphery and the countries along the belt and road corridors through a comprehensive and institutionalized cooperation scheme. In this case, the argument can be made that OBOR aims to ensure the larger regional and international community of China's intention to share the benefits of economic and technological development with its partners and develop through peaceful means. Perhaps for this reason, in addition to promoting the OBOR policy, China's top officials, including President Xi Jinping, have repeatedly emphasized the traditional "Three No's" principal with the nation's growing international influence: non-interference, not seeking enlarged spheres of influence, and not seeking hegemony.

Nevertheless, the reality remains that the geographical area that OBOR covers (from East Asia and South Asia to Central Asia, the Middle East, Eastern Europe, and Africa) is vast and the countries' levels of development across the belt and road are uneven. The diversity and unevenness are the significant links between the OBOR strategy and the AIIB. Indeed, according to the ADB, the Asian region needs about 8 trillion USD over the next decade in order to meet its infrastructure needs.⁵ It is practically impossible that, with its initial 100 billion USD operating capital, the AIIB could meet the entire demand, but it can provide more streamlined and less interventionist development assistance than its predecessors, such as the IMF and WB, and can contribute meaningfully to the overall global economy. One thing that is certain, however, is that the AIIB has the

5. "Public Private Partnerships Key to Meeting Asia's \$8 Trillion Infrastructure Needs - Study," *Asian Development Bank*, May 30, 2012, <<http://www.adb.org/news/public-private-partnerships-key-meeting-asias-8-trillion-infrastructure-needs-study>>.

upper hand over the Japan and U.S.-led ADB because of its integrated function within the OBOR. The ADB, in this regard, lacks the geographical depth that the OBOR might provide the AIIB.

3. The U.S. and Writing the Trade Rules

Ever since its announcement, global opinion about the AIIB has diverged along the dual lines of skepticism and optimism. In the AIIB, the skeptics tend to see a challenge to the existing international system as established and single-handedly supervised by the U.S. ever since the end of the Second World War. The skeptics argue that the China-led AIIB is a challenge to U.S. financial hegemony because it is independent from the Bretton Woods system and that it is a prelude of what is to come, that is, a broad-based challenge to U.S. dominance that involves politics (the China – Russia strategic partnership), economics (OBOR, AIIB, New Development Bank), and security (the Shanghai Cooperation Organization).

According to a *Time* op-ed,

For decades, Washington has used its dominant influence in the World Bank, International Monetary Fund (IMF) and Asian Development Bank to strengthen relations with European and Asian partners and guide developing countries toward Western values by conditioning aid on U.S.-backed reforms. Those countries had no choice: there was no credible alternative to the U.S.-led system.⁶

6. Ian Bremmer, “China Challenges America’s Financial Leadership,” *Time*, March 26, 2015, <<http://time.com/3759639/china-america-financial-leadership/>>.

Yet, things are changing now, according to the China-skeptics, as Beijing comes up with its own formulations under the AIIB and the OBOR, which have enticed major U.S. allies. In its frustration, for example, Washington even accused London of “constantly accommodating China.”⁷

Some optimists, on the other hand, raise a number of arguments against those of the alarmists. First, they posit that the AIIB is not a game changer but only an addition to the existing global economic structure.⁸ Furthermore, the U.S. also has significant weight in the ADB (second to Japan in terms of weight of vote), which allows the U.S. to remain actively involved in development policies in Asia. Moreover, Washington actively has been pushing for the Trans-Pacific Partnership (TPP) and, although the negotiations have recently stalled due to disagreement among major players on their protected industries, it has aligned all major Asian countries to join. Therefore, the U.S. is not without tools to respond to Beijing's moves, and there is no reason to get alarmed.

Second, the optimists hold that the AIIB's importance and capabilities are overblown because China's economy is still far from achieving a similar overall weight as that of the U.S., and China's national currency is not a world reserve currency. Others further argue that the AIIB suffers from the lack of a goal, unlike the IMF and WB, which both enjoy reputations as well-established institutions.⁹ Obviously, before the AIIB starts operating, some people see it is too early to contend that it lacks a goal or influence, but with 100 billion USD

7. Ian Bremmer, “China Challenges America's Financial Leadership,” p. 1.

8. Nyshka Chandran, “Why the US shouldn't worry about the AIIB,” *CNBC*, April 16, 2015, <<http://www.cnbc.com/id/102595123>>.

9. Nyshka Chandran, “Why the US shouldn't worry about the AIIB,” p. 1.

designated capital, the AIIB is already a moderately substantial institution, and its Articles clearly state that it is designed to complement the existing development framework but not rival it.

Lawrence Summers, Former Treasury Secretary of the U.S., makes a poignant observation about the AIIB, stating that:

*This past month [March – April 2015] may be remembered as the moment the United States lost its role as the underwriter of the global economic system. ... I can think of no event since Bretton Woods comparable to the combination of China's effort to establish a major new institution and the failure of the United States to persuade dozens of its traditional allies, starting with Britain, to stay out.*¹⁰

Indeed, cooperation with the European heavyweights is an important component of China's AIIB scheme if Beijing ever wishes to challenge the U.S. hegemony over global economic decision-making. China has, therefore, emphasized aligning the AIIB with the European Bank for Reconstruction and Development.¹¹ Apparently, there is an underlying belief that infrastructure development in developing countries involves a number of risks; hence, it would serve China better if it continued to buy U.S. treasuries and avoid risky development projects. It is natural for critics view China's attempt to pursue a developmentalist policy as an indication of its intention to rewrite or set alternative rules for the game.

10. Lawrence H. Summers, "Time US leadership woke up to new economic era," *Larry Summers*, April 5, 2015, <<http://larrysummers.com/2015/04/05/time-us-leadership-woke-up-to-new-economic-era/>>.

11. "European bank seeks to combine strength with AIIB," *China Daily*, June 22, 2015, <http://www.china.org.cn/business/2015-06/22/content_35878034.htm>.

The anticipated broad-based cooperation with most of the G7 countries adds to the belief that Beijing does not intend just to establish a modest institution with the mission of external development, “but...an international multilateral financial organization with interest- and risk-sharing mechanisms.”¹² This concern has been best voiced by U.S. President Barack Obama, who, in a recent interview, opined that “if we do not write the trade rules, then China will.”¹³ After all, it has been a pattern that powerful states attempt to influence the “rules of the game” in accordance with their own “domestic interests.”¹⁴

III. Taiwan's AIIB Bid

1. Taiwan's AIIB Application

Taiwan, with an initially conservative attitude and hesitation, finally decided to apply to join the AIIB. In its letter of intent, Taipei pledged to invest 200 million USD in the bank and asked for a full membership status. Nevertheless, Taiwan's application was turned down by Beijing because the two sides failed to agree on the name under which Taiwan would be represented inside the Bank. Taipei announced that the title “Chinese Taipei” would be the bottom line while Beijing insisted on “Taipei, China,” a title that Taipei carries in the ADB.¹⁵

12. “AIIB aims at shared benefits, not vanity,” *Global Times*, April 3, 2015, <<http://www.globaltimes.cn/content/915226.shtml>>.

13. “Obama: If we don't write trade rules, China will,” *WSJ Video*, April 27, 2015, <<http://www.wsj.com/video/obama-if-we-dont/write-trade-rules-china-will/2E2F928C-1747-435D-9CAB-EB3346FDEEB9.html>>.

14. Linjun Wu, 《「規則優勢」下的亞太區域經貿整合》(Taipei: Hung Yeh, 2015), pp. 199-207.

15. “The Republic of China, a founding member of the Asian Development Bank,

As a matter of fact, Beijing made it clear from the beginning that Taiwan's application would have to comply with the "requirement that the island not be identified as a separate country."¹⁶ Initially, there was considerable optimism with respect to a consensus on the appropriate title for Taiwan within the AIIB. The approaching high-level meeting between officials from the two sides at the 11th round of cross-strait talks was slated as an important platform for overcoming the deadlock. Nevertheless, the impasse has lasted until today, and there is no sign of any solution on the horizon.

Obviously, the Ma Ying-jeou administration's decision to submit an application was already a daring political step given that memories of the Cross-Strait Services Trade Agreement (CSSTA) with China and the following mass protests and occupations were still alive in the minds of both Beijing and Taipei. As anticipated, as soon as the application was made public, various opposition groups in Taiwan raised their objections, arguing that, among other issues, the Taiwanese public was kept unaware of the decision, the opposition was not given enough time to articulate its position regarding the details of the submission, and the proposal was submitted via the Taipei Affairs

was forced to accept the designation 'Taipei, China' to retain its membership after it was replaced by China in 1986. Taiwan has also been forced to adopt the name Chinese Taipei after becoming a member of the Asia Pacific Economic Cooperation forum in 1991. Much earlier, Taiwan's Chinese Olympic Committee had to be renamed Chinese Taipei to stay in the International Olympic Committee. Taiwan joined the World Trade Organization, which is not a U.N. organization, as the Special Customs Areas of Taiwan, Penghu, Kinmen and Matsu." See Joe Hung, "Taiwan wants to join the AIIB but certain issues will prove unavoidable," *The China Post*, March 30, 2015, <<http://www.chinapost.com.tw/commentary/the-china-post/joe-hung/2015/03/30/432353/p2/Taiwan-wants.htm>>.

16. "Taiwan and Norway sign up to AIIB," *BBC*, March 31, 2015, <<http://www.bbc.com/news/business-32128357>>.

Office (TAO) rather than, as was the case with other countries, the Foreign Ministry of China, which suggested that Taiwan was in fact not a country but an economic region.¹⁷

2. Taiwan's Participation and Anticipation

Initially, Beijing stated that it welcomed the proposal so long as it respects "China's requirement that the island not be identified as a separate country."¹⁸ The name issue also was discussed at the meeting between Straits Exchange Foundation (SEF) Chairman Lin Join-sane and Association for Relations Across the Taiwan Straits (ARATS) Chairman Chen Deming. Taiwan's joining of the AIIB also was viewed favorably by the opposition Democratic Progressive Party (DPP) at the start. The party's caucus whip, Ker Chien-ming, stated that "We [Taiwan] should join the AIIB...in the wake of China's plans for the Eurasia region, Asia's banks, international banks and international monetary funds will not be able to deal with the enormous demand for funds that the 'One Belt, One Road' will bring. This is no longer an issue about benefits and disadvantages anymore."¹⁹ Nevertheless, he also said that Taiwan would never join under the name "Taipei, China."

On April 13, 2015, China announced the rejection of Taiwan's membership bid, along with North Korea's, indicating that Taiwan would still be welcomed as a regular member under an appropriate name. The reason of the rejection was explained by Andrew Hsia, head of the Mainland Affairs Council: "Participants in the AIIB must

17. Katherine Wei, "DPP to rethink joining the AIIB 'practically'," *The China Post*, April 7, 2015, <<http://www.chinapost.com.tw/taiwan/national/national-news/2015/04/07/433036/DPP-to.htm>>.

18. "Taiwan and Norway sign up to AIIB."

19. "DPP to rethink joining the AIIB 'practically'."

be sovereign countries but the other side of the Taiwan Strait does not recognize us as a sovereign country.” Indeed, an article of the AIIB agreement indicates clearly that for applicants that are “not sovereign,” application for membership shall be presented or agreed upon by the member of the AIIB “responsible for its international relations.”²⁰

From the beginning, Taiwan’s proposal to join the AIIB included the following agenda:

Creating a cohesive regional network and interactions: Taiwan has been marginalized by China in most regional negotiations, such as ASEAN+N and RCEP. Hence, Taiwan wishes to achieve a breakthrough in regional cooperation by participating in OBOD since it desperately needs to broaden its international relations space. Taiwanese officials believe that participating in the AIIB provides an opportunity to openly network with members of OBOD countries, thereby increasing the chances to open up negotiation space with Southeast Asian countries about potential FTAs. By actively participating in this international organization, Taiwan could achieve greater exposure to the global economy, as the fact remains that, due to geopolitical constraints, Taiwan is not a member of major international bodies, such as the UN, the WB, and the IMF, although it is an ADB member as Taipei, China. The bid to join involved the desire to show that Taiwan is determined to take part in regional collaboration and increase its international influence.²¹

20. “Solving core political issue in Taiwan’s AIIB bid,” *WCT*, July 9, 2015, <<http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20150709000006&cid=1701>>.

21. MOEA, 〈我國加入亞洲基礎建設投資銀行評估報告〉, pp. 13-14, *Economic News*, April 2, 2015, <<http://www.economic-news.tw/2015/04/AIIB-report.html>>.

In the long run, China is attempting to create a sizable market and a new regional economic order by establishing inter-regional collaboration between Asian and European countries. Taiwan certainly wishes not to be absent from this and thus be excluded from the new regional order. Participating as a member is a way to guarantee a voice in the region and the larger global arena. In the meantime, provided that the political disagreement over the name is overcome, China has not shown an exclusionary posture towards Taiwan's bid to participate in the AIIB. Taiwan can use this opportunity to take active part in economic development in Asia and beyond for the well-being of its economy. The AIIB promises to open up business opportunities for enterprises to invest in and expand their businesses within the region. This also opens up another cooperation model across the Taiwan Strait. Should Taiwan for whatever reason not pursue this path, it will lose out on a great opportunity to progress economically in the region.

Creating new business opportunities for Taiwan's enterprises and financial institutes: The AIIB is a particularly business-oriented institution, and Taiwan definitely has certain strengths that can play a major role in the future development projects that the AIIB might take on. Infrastructure involves a wide area of applicability, and it comes with all the necessary components to empower a new market development.²² By participating, Taiwan could gain a ticket to bid on major construction projects, including IT and machinery, that only the members are allowed to bid on. In contrast to China, Taiwan's strength is not concentrated on major infrastructure construction projects but on the supply of power, generators, materials, and IT products. Healthcare and environmental products are also among Taiwan's gro-

22. MOEA, 〈我國加入亞洲基礎建設投資銀行評估報告〉, pp. 13-14.

wing industries. Taiwan may use the common regional platform offered by the AIIB to supply these advanced services and products to newly developing countries.

Furthermore, according to China's plan, the AIIB will be a major development platform. Once fully functional, the AIIB will serve not only as a platform for financial flow but also as a network hub for regional economic integration, cooperation, and growth, thereby creating more demand for capital investment opportunities and flow. This also gives Taiwan's financial industry new ground to expand its services, such as banking and insurance products. In addition, many experts believe that by taking part as an active member in the AIIB, Taiwan can plan and attract investment for infrastructure upgrades to raise its level of economic competitiveness.²³

IV. Challenges for Taiwan to Join the AIIB

After a thorough consideration of the benefits of joining the AIIB, Taiwan has expressed its willingness to join, even if it is as a regular member. The decision is not without disputes, and there are a number of concerns. Among those concerns are the issue of the title under which Taiwan would be represented in the AIIB and the dilemma between Taiwan's reliance on the U.S. for security and its economic relationship with China.

In launching the AIIB, China has defined it as an institution with nations as its members. Thus, all participants are supposed to be nations. Hong Kong has made an application as an economy and used the title of Hong Kong, China. China has responded that the application will need further discussion. According to Oriental Daily,

²³ MOEA, 〈我國加入亞洲基礎建設投資銀行評估報告〉, pp. 13-14.

“Hong Kong is expected to join the AIIB as a full member under the title of “Hong Kong, China”.²⁴ This implies that Hong Kong will acquire the same status as a sovereign state in the institution, including the possession of full voting rights.” Indeed, under the “one country, two systems” model, Hong Kong has the right to join international bodies. Although there are still unknowns with respect to Hong Kong’s participation, including joining as Hong Kong, China, joining as an individual member but only under the membership of China, or finally, joining under a new scheme in which participants can be listed as state or non-state entities.²⁵

Taiwan’s application has faced a greater obstacle because, unlike Hong Kong, the two sides have not reached a consensus about its political status. There is no “one country, two systems” arrangement between China and Taiwan. Beijing consistently insists on the “one China principle,” so Taiwan continues to face the same issue of using an independent title or identity. In fact, China has declined to accept Taiwan’s bid under the “Chinese Taipei” title. The gist of the matter is that, while China welcomes Taiwan’s joining in the AIIB, it rejects Taiwan’s application as an independent identity. Even though China allows a two-tier application model (one as state and one as non-state entity), Taiwan’s opposition would not like the idea of joining as an economic entity instead of a state.

24. Eric Cheung, “Hong Kong should join China-backed int’l bank ‘as soon as possible’,” *Hong Kong Free Press*, July 7, 2015, <<https://www.hongkongfp.com/2015/07/06/hong-kong-should-join-china-backed-intl-bank-as-soon-as-possible-financial-sec/>>.

25. Simon Shen, “How can HK get into China-led AIIB?” *EJInsight*, April 10, 2015, <<http://www.ejinsight.com/20150410-how-can-hk-get-into-china-led-aiib/>>.

1. Domestic disagreement and split

Taiwan's political landscape appears to be split over the issue of participating in the AIIB. Taiwan's opposition underlined that they would stand against any "under the table" deal with the Mainland, arguing that "Taiwan's national sovereignty, dignity and interests must not be undermined in the AIIB membership application process."²⁶ The main opposition party, DPP, also criticized the government for delivering Taiwan's application through the Taiwan Affairs Office under China's State Council instead of the Ministry of Foreign Affairs, which, they argued, undermined the island's sovereignty.

The public in Taiwan also remains split over the prospects of joining the AIIB. Certain segments of society have been concerned about the negative implications for Taiwan's sovereignty, especially if the application is accepted through a quasi-official channel. The opposition also seemed to quickly capitalize on the existing negative sentiment, which has apparently weakened the government's earlier enthusiasm.

The general public's split over the issue, which obviously is tied to the larger issue of Taiwan's international political standing, became clear at a recent incident. On May 23, 2015, after the meeting in Kinmen between Zhang Zhijun, Director of China's Taiwan Affairs Office, and Andrew Hsia, Chairman of the Mainland Affairs Council, Taiwan's top China policy decision-making body. During Zhang's visit, an angry mob of students from the anti-China Taiwan Solidarity

²⁶ Song-shan Chen, "AIIB bid: Time for DPP to step up and not just criticize," *Want China Times*, April 13, 2015, <<http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20150413000046&cid=1703>>.

Union (TSU) attacked the official's motorcade and threw a smoke grenade, which led to a confrontation between the students and pro-China crowds.²⁷

It is clear that the name issue is the most challenging roadblock to clear if Taiwan is to join the AIIB, as has been noted clearly by both the government and the opposition.²⁸ Ma Ying-jeou has repeatedly stressed that “the name Taiwan uses to join the China-led Asian Infrastructure Investment Bank (AIIB) is at the heart of whether the nation will participate in the financial institution or not,” a title that Taiwan uses at the ADB but is “not willing to use” under a possible AIIB membership.²⁹

One also can notice a certain level of doubt in China's ability to carry out the AIIB although, once again, this doubt has not been shared by over 50 nations. Some are of the opinion that, since Taiwan is not among the major countries that focus on infrastructure development, Taiwan might not be able to contribute in helping developing countries with their development projects. This view, however, is problematic because it reduces the concept of development to construction of dams, railroads, and other concrete and steel structures. Infrastructure, in reality, involves other areas, such as communication, finance, and services. Especially in information technology, Taiwan is a leading country, so within the AIIB, it might have enormous

27. “AIIB issue raised in Taiwan-China talks,” *GMA News*, May 23, 2015, <<http://www.gmanetwork.com/news/story/492014/money/personalfinance/aiib-issue-raised-in-taiwan-china-talks>>.

28. “Taiwan would rather not join AIIB if sovereignty compromised: MOF,” *Focus Taiwan*, June 30, 2015, <<http://focustaiwan.tw/news/aip/201506300030.aspx>>.

29. “Taiwan will join China-led AIIB under ‘Chinese Taipei’ name or not at all: Ma,” *Taipei Times*, July 05, 2015, <<http://www.taipeitimes.com/News/taiwan/archives/2015/07/05/2003622312>>.

business opportunities to undertake development projects in the less developed nations of Asia.

In line with the U.S. and Japanese argument to dissuade participation in the AIIB, others also argue that, since the AIIB's organization is not transparent enough, Taiwan would be in an uncertain situation. This argument is not realistic in that the AIIB is what its members decide it to be, and the Articles of Agreement clearly indicate that the AIIB will have the highest supervision and funding standards and procedures. Indeed, according to David Dollar, Senior Fellow with the Brookings Institution and former official at the World Bank and the U.S. Treasury Department, "AIIB's Articles of Agreement is very similar to that of the World Bank."³⁰ According to France's ambassador to China, Maurice Gourdault-Montagne, "Member states of the US\$100 billion Asian Infrastructure Investment Bank aim to put high standards of internal governance in place, ensuring the lender becomes the best bank possible."³¹

2. U.S. and Japan's policies toward Taiwan's bid

Regarding the U.S. and Japan's policies, it is seen that since the U.S. and Japan opted to stay out of the AIIB, Taiwan has faced even more challenges than before because it has to balance its security dependency on the U.S. and economic relations with China. Taiwan, although economically closely linked to China, has been dependent

³⁰ "AIIB agreement meets high standards, implementation to be 'real test'," *China Daily*, July 24, 2015, <http://www.chinadaily.com.cn/business/2015-07/24/content_21397159.htm>.

³¹ Victoria Ruan, "AIIB in quest for 'best bank' standards, says French ambassador to China," June 1, 2015, <<http://www.scmp.com/news/china/economy/article/1814690/aiib-quest-best-bank-standards-says-french-ambassador-china>>.

on the U.S. for its security. Taiwan, in this respect, has continued to face another set of questions of a geopolitical nature.

Hence, Taiwan has also come under indirect U.S. pressure over its interest in the China-led AIIB. According to leaked documents, “official advisers strongly recommended that Taiwan join a Beijing-led international development bank, but the government prevaricated for two weeks and submitted its application at the last minute because it feared upsetting the United States.” Deputy Foreign Minister Vanessa Shih revealed that “the U.S. had expressed concerns over Taiwan’s possible membership.”³²

Now that no further steps can be taken until December 2016, Taiwan and China still have time to sort out differences, including the name issue. The fact that other major U.S. allies have joined the AIIB takes away most of the U.S. pressure on Taiwan because there is no reason why Taiwan would step aside when, for example, South Korea, another country with a strong defense relationship with the U.S., has shown interest.

V. Conclusion

The establishment of the China-initiated Asian Infrastructure Investment Bank has been met with both enthusiasm and skepticism. Its critics see it as a challenger to existing U.S.-dominated international financial institutions and a prelude to what is to come, that is, a broad-based challenge to U.S. dominance that involves politics (the

³² Lawrence Chung, “Taiwan dithered over bid to join AIIB because it worried ‘how US would react’,” April 10, 2015, <<http://www.scmp.com/news/china/diplomacy-defence/article/1763240/taiwan-dithered-over-bid-join-aiib-because-it-worried>>.

China – Russia strategic partnership), economics (OBOR, AIIB, NDB), and security (the SCO). Others see it as merely an extension of the present international order and as unlikely to live up to the high standards of other development banks. Nevertheless, the speed with which the AIIB has become institutionalized, the large number of Prospective Founding Members, many of which are key U.S. allies, and the relatively significant initial operating capital are all signs that it could have a major impact on regional development.

Most countries' interest in the institution is primarily economic, as it will serve as a venue for investment in infrastructure development. For China, the AIIB will provide the financial foundation for moving forward with its OBOR strategy of building the infrastructure to link economies across Asia and to the Middle East, Eastern Europe, and Northern Africa by land and sea. Beijing also seems to be aware that countries within its sphere of influence, many of which lack sound infrastructure and logistics for rapid economic development, will not be able to offer enough opportunities for the country to lead the development of the non-Western world.

For Taiwan, its decision to make a last-minute bid to join the AIIB was the result of careful consideration of its geopolitical and economic situation and was likely made possible by the decisions of many other important U.S. allies to become members despite U.S. objections. Taiwan does indeed have a lot to gain both economically and geopolitically if it is able to join the AIIB because it could offer Taiwanese companies new opportunities for investment as well as potentially invite foreign investment in Taiwan's own infrastructure development. Also, the more international organizations that Taiwan has a voice in, the more it can increase its diplomatic profile internationally.

Although Beijing initially welcomed Taiwan's bid to join the AIIB, significant obstacles remain. The most significant roadblocks to its prospective AIIB membership are the cross-strait disagreement over how to officially refer to Taiwan within the institution, Taiwanese domestic political disagreement over the initiative, and the dilemma it faces in balancing the need to maintain its security relationship with the U.S. and the desire for economic revitalization in a time of economic slowdown. To join the China-led AIIB, Taiwan's strategy has to be subtler and more skillful than that of other countries. Taipei needs to stay in the game if it wants to remain relevant and influential, and sacrificing Taiwan's economic prospects would be ill-advised. Given that the U.S. also officially recognizes the one-China principle, a solution to the impasse between the two sides of the Taiwan Strait must be sought within that framework.

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