

Brief Introduction:
Research on AIIB in Promoting Infrastructure
Interconnection and Industrial Cooperation between Europe
and Asia

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Part one: Demand Analysis and Major Fields for Infrastructure
Interconnection and Industrial Cooperation between Europe and
Asia

1. Demand Analysis: Three Characteristics

Firstly, the urbanization is a main task for most Asian countries

Most of Asian countries are being at the early stage of urbanization. There is a huge gap in urbanization level between Asian countries and developed countries. Implementing of urbanization in the Asian countries will create a massive demand for infrastructure. Statistical data show that there are 130 million people lacking of the electricity and 600 million people lacking of necessary public service in the Asian regions. It needs a huge investment on the public service.

Table 1 Rate of urbanization in some Asian countries (%)

Regions and countries	2000	2005	2010	2015	2030
Asia	36.80	39.83	42.17	44.60	52.85
East Asia	40.39	46.27	50.17	53.84	63.73
China	35.76	42.51	46.96	51.08	61.91
Central and South Asia	29.47	30.65	32.08	33.89	41.95
South-East Asia	38.16	39.85	41.84	44.12	52.85
Western Asia	63.80	65.22	66.53	67.88	72.66

Resources: The United Nations Report of 2014

Secondly, the center of global energy consumption is moving to the eastern regions from the western

Middle East countries were the center of global energy which provides supplies for most of the energy consumption in the last five decades. Recently, this situation is changing because of the shale oil and gas revolution happened in the US and the economy growth in the Asian region. North American countries is becoming more independent than before because of this revolution. Asian countries will become the center of energy consumption because of their growing economies “World Energy Outlook 2015” published by B.P. forecasts that energy consumption will increase to the level of 69% by 2030: 96% of global energy consumption growth will come from non-OECD countries.

Thirdly, today, Asian economic integration is quite low

A report released by the Boao Asia Forum 2015 indicated that the integration of Asian countries have been facing serious challenges since the finance crisis in 2008. Trade dependence for Asian counties is 59.49% in 2012 and 53.01% in 2013.

2. Main fields financed by AIIB

Firstly, Infrastructure in Asian regions

(1) Urbanization, including city planning, water treatment, underground pipe gallery, smart city and green ecological construction.

(2) Cross border roads, railways and other infrastructure, such as the train connecting the Korean Peninsula, Russia, China, Mongolia, Kazakhstan and other countries to the north of Europe. The train connects South China, Burma, India, Iran, and Turkey. The train connects the Russia, Central Asia and the Persian Gulf.

(3) Information infrastructure such as fiber construction, cloud computing, Big Data, and 5Gtelecommunication.

(4) International ports, waterways and other international logistics centers such as the Malacca Strait, Gwadar, Kuantan, and Hambantota.

(5) New energy such as nuclear power plants, wind power base, the smart grid infrastructure.

(6) Infrastructure of Industrial Park in Asian regions.

Secondly, Innovation and technology

(1) Low-carbon technology and circular economy: including electric power, transportation, construction, metallurgy, chemical, petrochemical, and other areas of the cycling of energy conservation and economic development, renewable energy and new energy.

(2) Agricultural technology: including the promotion and application of high-yield grain seeds, improving management level of agricultural modernization, improving the management model of agricultural production.

(3) Small business technology innovation: including 3D printing, new materials, robots, and new energy.

(4) Information and communication technologies: including internet technology, cloud computing, the next generation Internet and Big Data.

Thirdly, environment protection and sustainable development

(1) High environment standards as requirements for every project financed by AIIB.

(2) Establish a diversified financing platform, providing long-term, stable and adequate financial support to protect environment.

(3) Cooperate with international environment protection

organizations such as World Wild Fund for nature and Greenpeace International.

(4) Improving the development capacity of recipient countries.

Fourthly, economic sustainable development

(1) Attract more global capital flowing into Asian countries. It will help the recovery for the Asian countries, making a great contribution for the global economy growth.

(2) Promote Asian cooperation and resource sharing including commodities, capital, technology, labor force and nature resource.

(3) Create more job opportunities through investment. The estimated data shows that the initial capital of \$100 million of AIIB will create about 140 million jobs.

(4) Promote economic integration in Asia. AIIB focuses on improving the Asian infrastructure which will enhance the connectivity within the Asian countries and competitiveness of the Asian regions, accelerate the degree of economic integration, and promote the stability of development.

Part Two: Recommendations on AIIB to better promote the interconnection and industrial cooperation between Asia and Europe

1. Overall thought

In accordance with “One Belt and Road Initiative”, facing a new

starting point for Asia-Europe cooperation, AIIB should seize the huge new opportunities for cooperation and common development, to provide financing guarantees for the Asia-Europe infrastructure interconnection in high level, to reshape the industrial layout, to optimize the industrial chain and value chain, and to bring benefits for people in Asia and Europe, as well as to provide new momentum for global economy.

2. General principle

Full innovation on financing mode and operation mode; coordinate the relationship between the member states, relations with other development banks, particularly in Europe and Asia interconnection in the relations with the European institutions; Projects should maintain the protection of the environment as the prerequisite, and actively support green economy development. According to the opening spirit, welcome the accession of the new member states, conduct full cooperation with all parties in the project, strengthen its cooperation with the government in that investments taken under a governmental framework are not only consistent with government goals but also could promote further optimization of the Bank's credit structure; bring benefit sharing into reality, and make efforts for all countries on the Euro-Asia continent to improve regional prosperity and living standards.

3. Main objectives

Firstly, promote infrastructure interconnection between Asia and

Europe. Advance Asian-European submarine optical fiber cable and sea-channel construction, promote the formation of ocean shipping network, expressway network, high-speed rail networks, aviation networks, telecommunication optical cable network, the information highway network and a series of high standard infrastructure interconnection networks in Asia and Europe.

Secondly, promote Asia-Europe industrial chain cooperation. Promote upstream and downstream industry chain and cross-border trans-regional collaborative development of associated industries, with a focus on intelligent manufacturing, big data, cloud computing, mobile Internet, energy conservation, environmental protection, new energy and other industry-wide cooperation in the field, to push forward sustainable economic development in Asia and Europe.

Thirdly, promote Asia-Europe trade and investment facilitation. Promote mutual benefit and win-win situation, multiple balances, safe and efficient open economy. Support the construction of the Eurasian continent free trade area on schedule, early in Europe and Asia to establish a high standard and wide-range opening facilitating trade and investment system.

Fourthly, expand the breadth and depth of financial cooperation between Asian and European countries. In banking, bonds, insurance, derivatives, foreign exchange and other fields to cooperate actively to

strengthen currency swaps, advance the reform of international monetary system.

Fifthly, Advance the communication of people to people between Asian and European countries. Promote free movement of people, technology, services in the region, build a lasting friendly community.

4. Main recommendations

Firstly, full combing best practice of existing multilateral development banks and successful experience of member states combined. AIIB is a common product of international economic governance in the new period, which not only requires learning the experience of other multilateral development banks, but also need to sum up the experience in promoting member's accumulation of economic development, economic development, particularly in the infrastructure and the development of industrial park.

Secondly, strengthen specialization of AIIB in infrastructure finance. Insist on the premise of protecting the environment for cooperation and development. Standards need to be developed to guarantee loans or investments to comply with local and international environmental law.

Thirdly, implement the diversified settlement currencies. At present, AIIB uses the dollar as the settlement currency. While financing from international market, AIIB also raise capitals denominated in the US dollars, Euros, RMB and other currencies. AIIB provides loans

denominated in dollars. In the future, with further business expansion and deepening, depending on different situations, major international currencies like euro and RMB could be the settlement currency.

Fourthly, cooperate with other multilateral development banks. As a new regional multilateral development bank, AIIB has different emphasis on business with existing multilateral development banks, and it is an improvement and supplement for the existing system of multilateral development finance. AIIB should establish close relations of cooperation with existing institutions to make full use of its management and project development resources and experience.

Fifthly, actively innovate on investment and financing channel. AIIB should actively expand the financing channel, improve the effectiveness of investment and financing. Through share issues, bond issues and the establishment of a variety of financial instruments, actively promote the PPP model, guiding private capitals to participate in AIIB project financing and so on.

Sixthly, AIIB's investment should combine with external assistance of member states that can complement each other. AIIB's investment projects could be combined with some aid projects, which can provide pre-feasibility study, planning, design, and consulting for large-scale projects.

Seventh, provide assurance for specialized organization in order to

facilitate interconnection between Europe and Asia. In advancing the construction of interconnection between Europe and Asia, AIIB requires innovation in professional management. For example, AIIB could introduce the lean management to redefine its management process, consolidate its project data, and establish the project assessment agencies.