

AIIB as a Challenger for IMF and WB

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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

I. 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 not have austerity policies such as the IMF, and thus AIIB will quickly take over many sectors in the economy outside Asia as well as Europe, especially Eastern Europe (Shahar & Lee, 2018). The establishment of the AIIB under the leadership of China has suggested that some of the top US producers are under pressure to change, fearing that they will be replaced by new intergovernmental organizations, where the US has the greatest influence. Remarkably, the question of whether China can provide leadership in global governance has been largely responded by the swift financial and political engagement of many national governments in AIIB, even if the US is not willing to participate (Perlez, 2014). International financial institutions, whose core elements are International Monetary Fund (IMF) and the World Bank (WB), have been dominated by US in the world economic development since the World War II. However, the concept of value and the benefits it pursues all belong to the West. Thus, the emergence of AIIB will be seen as a competitor to the existing financial institutions. In addition, if the trend of the current world economic centers shifting from the West to the East remains unchanged, it is likely that the AIIB will change the status quo even if it replaces Western financial centers.

II. WORLD FINANCIAL INSTITUTIONS

International Monetary Fund (IMF)

The IMF (International Monetary Fund) was formed at a United Nations conference in Bretton Woods, USA, in 1944. The IMF is an organization of 189 nations working together to promote global monetary cooperation, to stabilize financial security, to facilitate international trade, to promote highly the jobs creation and to achieve sustainable economic growth and poverty reduction around the world. The IMF has grown with the global economy throughout its 70-year history, allowing itself to play a central role in the world financial architecture. The main task of the IMF is to ensure the stability of the international monetary system, the system of exchange rates and international payments that allow countries and their citizens to carry out smooth transactions (IMF, 2018).

The basic mission of the IMF is to ensure the stability of the international monetary system. It does so in three ways: to track the global economy and the economies of member states; to give loans to countries with difficult payment balance; and to support its members. In terms of economic monitoring, the IMF monitors the international monetary system and monitors the economic and financial policies of its 189 member states. As part of this process taking place at the global level and at the level of individual countries, the IMF highlights the possible risks to stability and advises on necessary policy adjustments. In terms of lending, the IMF provides loans to member countries with real or potential balance of payments problems to help rebuild their international reserves, stabilize their currency, continue to pay for imports and restore conditions for strong economic growth. In terms of boosting capacity development, the IMF works with governments around the world to modernize their economic policies and institutions and train their staff. This helps countries strengthen their economies, improve growth and create jobs (IMF, 2018).

The IMF has traditionally helped countries cope with a temporary shortage of foreign currency and a longer-term trade deficit. The IMF provides limited technical and financial support needed to cope with the financial crisis for countries in a difficult situation (Martin, 1998). IMF plays a role in promoting international monetary cooperation, facilitating the expansion and growth of international trade in a balanced way; stabilizing the exchange rate; supporting the establishment of multilateral payment systems; allowing members to temporarily use the IMF's common capital resources with appropriate guarantees; shortening time and reducing the imbalance in the balance of payments of member countries. The IMF has provided financial assistance to member countries in difficulty through many loans. For developing countries, the IMF is less interested. In part, their capital is small, and their influence on international trade and finance is not so high (Xemtailieu, 2018).

The IMF aims to create a strong mutual financial support fund, maintain financial stability by lending countries in economic crisis or with inflationary currencies. The IMF helped countries overcome the economic crisis as the case of Korea, Thailand in 1997 and recently the EU countries such as Greece and Portugal. In Asian financial crisis in 1997, Asian economies shook particularly badly. Facing the crisis, these countries have asked the IMF for help. The IMF has provided its members with huge loans to cope with the crisis. The IMF approves about 26 billion SDRs, an equivalent to \$36 billion, to help countries asking for support. IMF support has helped stop the spread and continued downturn of many Asian economies. In addition to financial assistance, the IMF has put forward measures to reform the financial and economic structure in order to achieve future growth (Edu, 2018).

World Bank (WB)

Founded in 1944 and headquartered in Washington DC, USA, started operation in 1946, the World Bank (WB) is closely associated with the IMF, as most countries are members of the WB, and at the same time members of the IMF. With 189 member states, employees from more than 170 countries and offices located in more than 130 countries, the main task of WB is to promote economic and social growth in developing countries through technical assistance, project loans for governments; to raise funds from international financial markets and use them in development projects in developing countries. All WB loans are repayable at a rate higher than the market rate (WB, 2018). WB functions are assigned to the member organizations, including five organizations (Xemtailieu, 2018):

- International Bank for Reconstruction and Development (IBRD) was officially established on December 27, 1945 with the main responsibility of financing Western European countries for economic reconstruction after the World War II and later for economic development in poor countries. Once the economies of these countries are being restored IBRD grants financing to developing countries.

- International Development Association (IDA), established in 1960 to provide financing for poor countries;

- International Finance Corporation (IFC), established in 1956 to promote private investment in poor countries;

- Multilateral Investment Guarantee Agency (MIGA), established in 1988 to promote FDI in developing countries;

- The Center for International Settlement of Investment Disputes (ICSID) established in 1966 and served as a forum for arbitration or mediation of conflicts between foreign investors and investment recipients.

The purpose of the WB is to eliminate the development gap by investing resources of rich developed countries for developing countries or countries still in poverty. It is one of the largest sources of development assistance in the world. The WB supports the efforts of the governments of developing countries to build schools and healthcare centers, to provide electricity, water and measures for disease prevention, and to protect the environment. The main activity of the WB is to mobilize capital from international financial markets and use them in development projects in developing countries. All WB loans are repayable at a rate higher than the market rate. The WB is an investment bank, mediating between the investor and the borrower that is borrowing for someone else to borrow (Xemtailieu, 2018).

Born for poor countries and for society, WB mobilizes capital from developed member nations to lend to the developing countries, helping them to eradicate hunger, reduce poverty, stabilize economic development, education, healthcare and the environment, and address the development of the social security system in the world, especially in the poor countries. All those are done through: designing and financing development projects; technical assistance, policy advice and analysis reports; aid coordination. IDA (International Development Association)'s assistance, technical assistance and consultancy assistance to developing countries play a key role in their relationship with the WB group. In particular, in addition to financial support, the policy advisory role to successfully implement the Structured Adjustment Credit Facility (SAC I) and the Poverty Reduction Support Credits (PRSC) I and II of the WB are highly appreciated. WB has done a good job of coordinating and calling for direct funding to support developing countries, thereby increasing their prestige in the international financial community, contributing to the attraction of foreign direct investment (Xemtailieu, 2018).

Recently, the WB has made the biggest reforms to its internal governance over the decades (Strand & Retzl, 2016). The WB's "voice reform" includes many changes to improve internal governance, including adjusting voting weight for developing countries (World Bank 2010). However, the increase in voting shares did not significantly increase the share of votes by developing countries (Strand & Retzl, 2016; Reisen, 2015; Vestergaard & Wade, 2013). In short, despite the recent institutional adjustment in WB, the influence of China, Brazil, and other major rising powers is still small compared to the United States, Japan and EU members.

Asian Infrastructure Investment Bank (AIIB)

AIIB was established in January 2016, with 87 members in 2018. The legal capital of AIIB is \$100 billion. Calling capital accounts for 80% and real capital contributes 20%. AIIB focuses mainly on lending to investment projects or programs, equity investments and guarantees. After one year of implementation, AIIB has approved and co-financed the first 9 projects worth \$ 1.73 billion. In the period of 2017-2018, the AIIB has received a proposal and is expected to consider financing or co-financing about 20 projects with a total loan of up to \$ 3.5 billion. AIIB's main task is to fill the gaps in infrastructure in Asia, including underdeveloped transport routes, energy and communications between countries, through a new development-oriented bank specialized in financing for infrastructure. The main role of the AIIB is to invest in the world's first professional infrastructure and play an additional role in the area of infrastructure financing (AIIB, 2018).

In terms of membership, China intends to build a regional bank established by Asian and Middle Eastern countries, with Beijing contributing up to 50% of its total capital, which will turn into full veto to any decision (Yun, 2015). China has actively promoted the internationalization of the RMB and pushed the IMF successfully to include its currency in its Special Purpose Deposit since 1 October 2016 (IMF 2015). The AIIB certainly involves the domination of Washington and Tokyo in the WB and ADB and their reluctance to turn Beijing into a fully international member in accordance with its economic growth and potential (Robert, 2016). In addition, the AIIB is accused of providing a rival management model and is likely to provide loans at a faster rate with less binding constraints.

AIIB will only invest in infrastructure. AIIB will invest in all countries, irrespective of the level of development of each country. The AIIB is part of China's regional development strategy, which is part of the Road and Belt Initiative (BRI), an ambition to develop connectivity and cooperation among nations in Asia, Africa and Europe through a complex network of road and sea infrastructure called the Silk Road Economic Belt, and the Maritime Silk Road. BRI will benefit 63% of the global population and contribute \$ 2100 billion to global GDP. China also hopes that the BRI will boost its economy by creating opportunities in new markets. AIIB will be one of the funding sources for the BRI. The AIIB has more representatives from the South and gives developing countries a bigger voice. At least 75% of the votes will be allocated to Asia Pacific member countries. This helps smaller Asian countries have a voice that they normally do not have in other multilateral banks. AIIB will help address Asia's current challenges in transportation, energy and urban development. If the AIIB can bridge the gap in infrastructure, it will contribute a great deal to the growth and the creation of opportunities for all sectors in Asia and beyond (Cvdvn, 2018).

III. RESEARCH METHODOLOGY

When conducting research on the topic, the main methods commonly used in economics are applied such as synthesis, analysis, comparison and collation. This method is used most throughout the article, synthesizing, analyzing, comparing and collating theoretical foundations and related research data. The first is to collect and process information, materials, articles, interviews, scientific journals related to the WB, IMF and AIIB, searched and collected from many secondary sources. Due to the reliability of the data, it is necessary to filter the most accurate data for the problem. The data collected requires specificity, clarity, being in accordance with research objectives, body and time. We consolidate resources related to IMF, WB and AIIB, analyzing the functions, tasks and roles of international financial and economic institutions in the world economy, especially in developing countries. We compared AIIB and IMF & WB, from the history of its formation, the number of members, the total authorized capital, the annual loan amount and the financial priority issues to clearly see the competitiveness and AIIB's alternative to the IMF and WB, to provide a good solution for the development and replacement of IMF and WB position by AIIB. We also compare the results of the research with previous research results. As the AIIB develops globally and is likely to replace the IMF and the WB, it will provide opportunities for ASEAN members. When the preferential capital from organizations such as the WB and the IMF in the coming time will be increasingly limited, the development of AIIB will be an advantage for ASEAN countries with large capital needs for infrastructure. As most of ASEAN developing members are founding shareholders (Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Thailand and Vietnam), they have more privileges to participate in AIIB's executive positions, promoting sustainable economic development through investment in infrastructure of sectors of communication, energy, telecommunications, agriculture, environment, urban development, helping them move faster on the way of international integration in the current era of Industrial Revolution 4.0, creating favorable conditions to move on to becoming a developed country in the future.

IV. RESEARCH RESULTS AND DISCUSSION

Despite being the most dynamic continent in the world, Asia's infrastructure has not yet developed at a high level. So, a bank focused on providing capital to build roads, bridges, ports, and telecommunications in Asia as the foundation for economic growth is a welcome initiative to pick up. Especially in the context of large capital needs of all Asia, up to \$ 800 billion in 2010-2020, according to ADB's 2012 report, the introduction of AIIB contributes to the solving continent's "thirst" for capital. Financial mechanisms that have existed since the end of World War II such as the World Bank and the IMF, or even ADB, are sometimes inadequate in the implementation of economic policies, and often require countries' policy change or appropriate management mechanisms to obtain financial aid. The AIIB will be totally different, when China pledges not to interfere in the internal affairs of the recipient countries. This approach is highly attractive to less developed countries, when not all countries are ready and able to meet management requirements, environmental and labor standards popular in developed countries. If it works well, the AIIB can be seen as typical of the financial development assistance mechanism among developing countries in the future. Although China is the largest shareholder in AIIB, it holds 26.06% of the shares (the second largest shareholder is India and the third is Russia with 7.5%

and 5.92% respectively), but China has no veto. The 57 founding members have one representative on the board of directors of the AIIB, but only 12 of them have the right to vote on decisions made by the AIIB. If the AIIB is able to implement the principle of fair governance, transparency and professionalism, it will undoubtedly be another testament to the global economic rebalancing, just as Luxembourg Minister of Finance Graham Meniasaid. China's goal of initiating the establishment of the AIIB is to focus on developing infrastructure for developing countries. In fact, it would be to export seriously excessive capacity to achieve balance and restructure its own economy. The severe lack of infrastructure in developing countries as a barrier to economic and social progress is undeniable. China's desire using AIIB to transfer its overwhelming excess of supply and meet the huge construction demand of developing countries is by no means a bad thing, and can even be an achieved win-win case. It is noteworthy that the AIIB is completely unlike the IMF or the WB with additional lending conditions for borrowers, including economic and political reform. The experience of the 1997 Asian financial crisis has proved that the harsh conditions attached to it could put the borrowing countries in grave danger, just like Indonesia's previous crisis. In the early days of 2016, China's Shanghai and Shenzhen stock markets have bottomed out, affecting the global stock market. China's economic growth slowdown has become more and more the focal point of the international market. All of this shows that China, coupled with increasing international influence, is also facing increasing political and economic challenges. The mission and tasks of AIIB will inevitably be increasingly monitored by countries around the world, and the role of China will become increasingly important. If it is possible to balance the global economy, to ensure that developing countries have the opportunity to select better loans, AIIB and China will have a profound effect on the structure of international financial system in the future.

The formation of AIIB will break the monopoly position of the WB and the IMF. At the same time, it will provide the impetus for the IMF and the World Bank to operate in a more democratic, effective and standard way, thereby promoting the restructuring of the financial system as well as strengthening democracy in international cooperation. Although the name is regional, it is clear that the aim of the AIIB is to expand globally with founding members from both Europe and Africa. So experts say that the AIIB is set up to compete with the IMF and the WB, but many of them say that it is impossible for AIIB to compete with three international institutions at the same time in three different areas. Beijing's initiative to set up a \$ 100 billion fund that directly competes with the IMF, but it is not strong enough compared to the IMF's \$ 800 billion mobilization capacity. Many people predict that China may be one of the countries that could be hit by financial crisis in the next few years then it will probably come to the IMF for help. With the WB, this is a development bank that functions to assist with affordable interest rate and technical credit for developing countries, primarily implementing state development projects. The WB can raise capital in the private financial market to fund its operations but not for profit-making purposes such as investment banks. So the AIIB can not compete with the WB on both capital size and functionality. Anyway, the birth of the AIIB is still the bell that warns USA about its unreliable reputation and credibility in the financial sector. Experts say that economically, the AIIB is also limiting its activities when China encounters other difficulties.

The establishment of the AIIB has great economic and geopolitical significance and symbolizes an important development trend in history. Asia is a densely populated region, accounting for 60% of the world's population. According to estimates by the ADB, before the industrial revolution in Europe, Asia's GDP accounted for 60% of the world. By the year 2050, GDP per capita in Asia will reach \$ 40,000, equivalent to the current European standard. In other words, Asia has tremendous potential and growth prospects. In order to meet its rapid development requirements, Asia will need a great deal of investment in the near future, especially in infrastructure. Therefore, in the context of the current development of the Asian region and future needs, the AIIB is considered to be timely.

It is noteworthy that the AIIB's appearance reflects not only the development trend towards Asia in the global financial hub, but also the strong Chinese emergence, a sign of reestablishing its position in the world. The threat of geopolitical conflicts due to the rise of China certainly makes many countries feel concerned. International financial institutions, whose nucleus is the IMF and WB, have dominated the world economic development since the World War II. However, as said earlier the concept of value and the benefits they pursue all belong to the West. Thus, the emergence of AIIB will be seen as a challenge to existing financial institutions. In addition, if the trend of the current economic centers shift to the east remains unchanged, it is likely that the AIIB will change the status quo even by replacing Western financial centers. In addition, AIIB promotes the development of Asia not only to help many people escape from poverty, but also to increase the middle class in this region, creating a huge consumer market for other economies outside Asia. This shows that although there are some risks to be considered, participation in AIIB is an adequate solution for countries that are in need of capital to develop their infrastructure, as well as developed countries encountering economic difficulties brought about by the global economic crisis.

In particular, many of the ASEAN developing countries were founding members of the AIIB, joining AIIB at an early stage when the initiative was initiated. Participating in AIIB from the beginning as a founding

member creates opportunities for them to participate in the process of developing rules of play for an international financial and banking organization, thereby contributing to the enhancement of their position and voice. Joining AIIB is one of great policies in the overall strategy of international economic integration. Given the high level of public debt in ASEAN developing countries, the potential source of capital from AIIB is not only serving as an additional source of capital to develop infrastructure but will also be an important alternative channel to support and exploit private capital to invest in this area in the future. Therefore, participation in AIIB is quite suitable for the economic development of the ASEAN developing countries in the process of international integration.

V. CONCLUSIONS AND RECOMMENDATIONS

To date, 57 countries have been approved as founding members of AIIB. However, according to experts, a larger AIIB does not mean a better AIIB. More members, especially those with advanced economies, will dilute China's influence in the multilateral financial institution. Wishing to contribute 49% to the AIIB, it is undeniable that China will take a leading role in regulating this institution. However, as more and more rich countries take part as founding members, China's share of the capital must be reduced. This fact opens the challenges of an institutional balance.

China will face institutional balancing efforts from many wealthy developing countries like UK, Germany, France and Australia. China will not be the nation that sets all the rules and standards for AIIB as the responsibility for ensuring that AIIB operates in a transparent manner is the mission of the rich countries joining AIIB as the founding members. They would say "no" if AIIB management practices did not meet the high standards of the WB and regional development banks, such as ADB. And there could be an internal battle between China and developed countries on setting the agenda, setting the rules and regulations of the AIIB. Although institutional and competitive equality is essential for the long-term healthy development of AIIB, short-term institutional challenges will be China's leadership test towards the global financial system. It is imperative that Beijing finds the balance between parts, especially between rich and poor countries. The AIIB must confront the internal challenges as well as the challenges from the extant WB and IMF as world financial institutions. The AIIB should find solutions to address the following challenges:

Firstly, set up the rules and standards for AIIB to make it work in a transparent, healthy and effective way, providing institutional balance between wealthy and poor members.

Secondly, having too many countries participating in the AIIB will make the management process difficult. As more countries join, the more benefits are set and, of course, each country wants the system to serve its own interests and that will make the organization become complicated. Therefore, AIIB should have appropriate management policy and bring benefits to all member countries.

Thirdly, China's commitment to AIIB not to intervene in the internal affairs of countries receiving financial aid will cause the AIIB not able to control its lending resources and its using priority that lessen the chance of investment capital recovery. Therefore, there must be tight lending policies in place and a systematic organization to control the flow of capital.

Fourthly, with limited funding and necessity to allocate more funds to achieve the same objectives as of the WB and IMF, and the AIIB has not yet issued any specific mechanism and policy to mobilize its resources. Therefore, the AIIB should establish a specific policy to mobilize capital and provide a means of capital mobilization.

As many developing countries, the financial resources from public investment will not be enough to meet the needs of infrastructure development, ASEAN developing countries need a policy framework to call for private capital investment. The governments of those countries have paid much attention to mobilizing resources from the private sector, including foreign investors, to invest in and develop infrastructure. One of the priorities of AIIB is to support and encourage the private sector to invest in infrastructure development and, in fact, within the first year of operation of AIIB, there are projects funded by the private sector that do not require government guarantees in some member countries. This has a great impact on their economies, creating opportunities for domestic infrastructure development, and setting friendly relations with non-ASEAN member countries of AIIB.

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