

**Regulatory Impact Analysis (RIA)  
in relation to the Asian Infrastructure Investment Bank Bill 2017**

<b>Summary of Regulatory Impact Analysis (RIA)</b>	
<b>Department/ Office:</b> Department of Finance	<b>Title of Legislation:</b> Asian Infrastructure Investment Bank Bill 2017
<b>Stage:</b> Text of the Bill	<b>Date:</b> 12 May 2017
<b>Related Publications:</b> Asian Infrastructure Investment Bank Bill 2017	
<b>Available to view or download at:</b> <a href="http://www.finance.gov.ie">www.finance.gov.ie</a>	
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<b>Policy Options</b> The following policy options have been considered in relation to the Asian Infrastructure Investment Bank Bill, hereafter referred to as the AIIB Bill:  <ol style="list-style-type: none"><li>1. Not joining the AIIB.</li><li>2. Joining the AIIB now.</li><li>3. Joining the AIIB at a future time.</li></ol>	
<b>Preferred option</b> Option 2 – Joining the AIIB now – is being pursued by the Department for Finance, in cooperation with the Department of Foreign Affairs and Trade. A formal application for membership was made which was accepted on 23 March, 2017. This follows a considerable amount of analysis as evidenced below.	

<b>OPTIONS</b>			
	<b>Cost</b>	<b>Benefit</b>	<b>Impact</b>
<b>1</b>	<b>Not joining the AIIB.</b>		
	<p>Potential undermining of the strategic priority which successive Irish governments, particularly the present one, have given to China and Asia.</p> <p>Potential damage to Ireland's existing positive overall bilateral and political relationship with China/Asia, and associated potential to damage Ireland's economic and trade relationships with China/Asia.</p> <p>The above-specified potential damage to trade would also be experienced by Irish businesses and it could result in job losses.</p> <p>Potential loss for Irish businesses regarding business opportunities which AIIB membership may offer in AIIB-financed projects.</p> <p>Potential loss of Ireland's influence in the international financial architecture (i.e. Institutions such as the IMF and World Bank).</p>	<p>Financial resources which would be associated with AIIB membership can be used for alternative purposes.</p>	<p>Loss of Ireland's economic influence in our bilateral relationship with China, with a potential, subsequent loss of jobs based on Ireland's trade relationship with China.</p> <p>Loss of Ireland's influence in the international financial architecture based on our non-engagement with this emerging new Institution.</p> <p>Loss of influence in the wider Asian sphere of interest, including potential economic benefits.</p>

<b>2</b>	<b>Joining the AIIB now.</b>		
	<b>Cost</b>	<b>Benefit</b>	<b>Impact</b>
	<p>Monetary cost associated with allocating resources (i.e. officials) to participation in AIIB events and meetings.</p> <p>A shareholding contribution of approximately €25 million to be paid in annual instalments over five years has been agreed in principle with the AIIB.</p>	<p>Reinforce Ireland's existing positive overall bilateral and political relationship with China/Asia, and the associated economic and trade relationships with China/Asia, by supporting the AIIB which is an initiative reflecting China's emerging global presence.</p> <p>Reinforce the strategic priority which successive Irish governments, particularly the present one, have given to China and Asia.</p> <p>The above-specified benefits for the existing trade relationship would also be experienced by Irish businesses and it could create more jobs.</p> <p>Potential for Irish businesses regarding business opportunities which AIIB membership may offer in AIIB-financed projects.</p> <p>Maintain Ireland's influence in the international financial architecture by having a role/presence in the AIIB, and taking our place among our counterparts from other Countries.</p> <p>Apply experience from Ireland's role in other International Financial Institutions and reinforce the synergies available from being a member of an increased number of such Institutions. This would maintain Ireland's current proactive role in international affairs.</p>	<p>There are potential benefits for rural communities and the Irish farming and agri-sector. China is now Ireland's second biggest agri-food export destination after the EU market.</p> <p>China is an important destination for Ireland's agri-food exports and that there are significant growth prospects. This has the potential to support employment and expansion of Ireland's agri-sector, a truly national sector of the economy which is based both on farms and in processing facilities in communities nationwide.</p> <p>Ireland's AIIB membership would maintain our current strong relationship with China and Asia, reflecting the growing geopolitical and economic importance of China to Ireland. Conversely, to not join the AIIB would raise questions regarding Ireland's position on China's increasing integration into the global economy and international financial architecture, and it would be at variance with the other very positive aspects of our bilateral relationship.</p> <p>In summary, the recommendations will support policies focused on creating jobs and thereby increasing the potential to reduce unemployment.</p>

<b>3</b>	<b>Joining the AIIB at a future time.</b>		
	<b>Cost</b>	<b>Benefit</b>	<b>Impact</b>
	<p>Monetary cost in the form of financial contributions to the AIIB which would be associated with Ireland's membership once we join.</p> <p>Loss of the opportunity to join the Bank in this round of applicants and a likelihood of less favourable terms of membership.</p> <p>Potential uncertainty over when a future opportunity may arise for Ireland to become a member.</p> <p>Potential, even if temporary, undermining of the strategic priority which successive Irish governments, particularly the present one, have given to China and Asia.</p> <p>Potential, even if temporary, damage to Ireland's positive overall bilateral/political relationship with China/Asia, and economic/trade relationship with China/Asia.</p> <p>The above-specified potential damage to trade would also be experienced by Irish businesses and it could result in job losses.</p> <p>Potential, even if temporary, loss of Ireland's influence in the</p>	<p>For a short time, the financial resources which would be associated with AIIB membership can be used for alternative purposes.</p> <p>Potential to learn from further observation of the AIIB and its operations and from the experiences of existing members of the AIIB.</p>	<p>Loss of Ireland's economic influence in our bilateral relationship with China, with a potential, subsequent loss of jobs based on Ireland's trade relationship with China.</p> <p>Loss of Ireland's influence in the international financial architecture based on our non-engagement with this emerging new Institution.</p> <p>Loss of influence in the wider Asian sphere of interest, including potential economic benefits.</p>

	<p>international financial architecture by not having a role/presence in the AIIB, a new and emerging International Financial Institution.</p> <p>Delayed, and thereby endangered, benefits for the existing bilateral/political and economic/trade relationship would also be experienced by Irish businesses and could result in job losses.</p> <p>Delayed potential for Irish businesses regarding business opportunities which AIIB membership may improve in AIIB-financed projects.</p>		
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## Section 2: Statement of policy problem and objective

### **Policy context:**

#### Policy Problem

Ireland is not yet a member of the AIIB. Following the Government Decision of 15 December 2015, which gave approval for a formal application for membership, Ireland has engaged with the Secretariat of the AIIB to negotiate its membership. Ireland's application for membership was formally accepted by the AIIB on 23 March, 2017 and enabling domestic legislation is required to complete the membership process.

#### Context

The Asian Infrastructure Investment Bank (AIIB) is a multilateral investment bank, established and led by China, whose stated aims are to foster economic development and regional integration in Asia by investing in infrastructure and other productive areas.

Ireland's interest in AIIB membership is primarily based on geopolitical and economic priorities including trade relations with China and the wider Asian economy.

Over the past 15 years, Ireland has increased its engagement with Asia, and particularly China, the world's second largest economy, in a broad number of areas, both bilaterally and through the EU. This scale-up in engagement aims to broaden and deepen co-operation, whilst Ireland's priorities relate to bilateral trade and investment, particularly: higher education; agri-food; tourism; and aviation financing sectors.

Bilateral trade has grown in significance and in 2015 Ireland's total trade with China was worth over €11 billion. This represents an increase of 42% on 2014, while total trade in services have expanded by 110% since 2014. As a small, open, exporting economy, these growing trade relationships are a very important contribution to Ireland's continued economic recovery, particularly in the context of the UK's decision to leave the EU. It is important that Ireland maintain strong and open ties with China and becoming a member of the AIIB would reflect and reinforce the growing relationship between both Countries.

On 15 December 2015, a Government decision authorised officials to commence formal engagement with the Secretariat of the AIIB to negotiate Ireland's potential membership of the AIIB. During these engagements, the AIIB advised that all non-regional members in the current round of applicants will be offered shares equal to 47% of their GDP share. On this basis, Ireland has been offered 1,313 shares in the Bank. In capital terms, this equates to a total subscription of approx. €126.1 million split between 80% callable capital and 20% paid in, which in practice would result in a subscription of approx. €25 million, payable in annual instalments over 5 years.

On 25 January 2017 an application for membership under these terms was made by the Minister for Finance, contingent on the passage of the necessary domestic legislation. Ireland's application for membership was approved by AIIB Governors on 23 March 2017. The applications of twelve other prospective members, including Belgium, Hungary and Canada were also approved on this date.

#### Objective

The objective of the policy proposal is to reinforce Ireland's political, economic, trade and cultural relationships with China and the wider Asian economy, which would reflect the growing

importance of China and Asia to Ireland. This would protect jobs which have been created by the trade relationship with China and Asia, and it has potential to increase these jobs in future.

## **Statement of Objectives:**

### **Long term**

1. The overall objective of the policy proposal is to protect jobs and to support job creation based on the trade relationship with China and Asia. This objective would be supported by a reinforcement of Ireland's relationships with China and the wider Asian economy, which would be achieved by becoming a member of the AIIB, a sign of China's emerging role in the global economy. This overall objective is supported by two other long term objectives:
2. A second objective of this proposal is that Ireland would become a member of the AIIB. This would be in accordance with the Government Decision of 15 December 2015.
3. A third long term objective includes the reinforcing of Ireland's geopolitical, economic and trade relationships with China. AIIB membership would demonstrate Ireland's support for this initiative from China which is a reflection of its emerging role in the international financial architecture. It would support the existing strong bilateral links and it would secure the increased trade levels achieved over the last 10 years. This in turn would reinforce the strategic priority which successive Irish governments, particularly the present one, have given to China and Asia. It is important that Ireland continues to broaden and deepen these relationships with China as the country continues to open its economy further. Overall, AIIB membership would reflect and reinforce the growing relationship between Ireland with China and Asia.

### **Immediate**

The more immediate objectives of this policy decision include:

- Passage of the legislation which would allow for Ireland's membership of the AIIB.
- Successful conclusion of negotiations with the AIIB under the terms of shareholding and capital contributions agreed.

## **Section 3: Identification and description of options**

### **Options**

A number of options were considered:

1. Not joining the AIIB
2. Joining the AIIB now
3. Joining the AIIB at a future time

#### **Option 1 - Not joining the AIIB**

Not joining the AIIB is important to include for benchmarking purposes. Taking no action is always an option when considering a policy and/or legislative proposal. For that reason, the

inclusion of this option in the RIA it assists in framing the discussion with the status quo as a useful background and benchmark. In consideration of the broader policy objective and policy context, as discussed in this RIA, to take no action (i.e. to not join the AIIB) is not considered to be a satisfactory option.

### **Option 2 - Joining the AIIB now**

This option would involve joining the AIIB under the terms agreed and the passage of the Bill which would enable Ireland's membership through the Oireachtas. This option would meet the two ultimate objectives which were determined after a consideration of the broader policy objective and policy context.

- Ireland becoming a member of the AIIB, the high strategic priority of which has been demonstrated by the Government Decision of 15 December 2015 and the discussions between the Taoiseach and the Minister for Finance with their Chinese counterparts.
- reinforcing Ireland's political, economic, trade and cultural relationships with China and the wider Asian economy, which would reflect the growing importance of China and Asia to Ireland.

### **Option 3 - Joining the AIIB at a future time**

This option would involve abandoning the terms already negotiated with the AIIB and waiting until a future date, to be decided, before making a formal membership application to the AIIB. This option would not fully meet the long term objectives arising from the broader policy context, and may in fact put at risk hard-won influence and economic opportunities with China.



## Section 4: Analysis of costs, benefits and other impacts for each option

### Costs

<b>Option1 - Not joining the AIIB</b>
<p>Potential undermining of the strategic priority which successive Irish governments, particularly the present one, have given to China and Asia.</p> <p>Potential damage to Ireland's existing positive overall bilateral and political relationship with China/Asia, and associated potential to damage Ireland's economic and trade relationships with China/Asia, by appearing to not support the AIIB which is an initiative reflecting China's emerging global presence.</p> <p>The above-specified potential damage to trade would also be experienced by Irish businesses and it could result in job losses.</p> <p>Potential loss for Irish businesses regarding business opportunities which AIIB membership may offer in AIIB-financed projects.</p> <p>Potential loss of Ireland's influence in the international financial architecture by not having a role/presence in the AIIB, a new and emerging International Financial Institution. This would be at variance with Ireland's current proactive role in international affairs.</p>
<b>Option 2 - Joining the AIIB now</b>
<p>Monetary cost associated with allocating resources (i.e. officials) to participation in AIIB events and meetings.</p> <p>Monetary cost associated with our capital contribution to the AIIB which is approximately €25 million over five years.</p>
<b>Option 3 - Joining the AIIB at a future time</b>
<p>Monetary cost in the form of financial contributions to the AIIB which would be associated with Ireland's membership.</p> <p>Potential, even if temporary, undermining of the strategic priority which successive Irish governments, particularly the present one, have given to China and Asia.</p> <p>Potential, even if temporary, damage to Ireland's positive overall bilateral and political relationship with China/Asia, and associated potential to damage Ireland's economic and trade relationship with China/Asia, by appearing to not support the AIIB which is an initiative reflecting China's emerging global presence.</p> <p>The above-specified potential damage to trade would also be experienced by Irish businesses and it could result in job losses.</p> <p>Potential delay for Irish businesses regarding business opportunities which AIIB membership may offer in AIIB-financed projects.</p>

Potential, even if temporary, loss of Ireland's influence in the international financial architecture by not having a role/presence in the AIIB, a new and emerging International Financial Institution. This would be at variance with Ireland's current proactive role in international affairs.

Potential uncertainty over when a future opportunity may arise for Ireland to become a member.

Loss of the opportunity to join the Bank in this round of applicants and a likelihood of less favourable terms of membership.

## Benefits

### **Option 1 - Not joining the AIIB**

Financial resources which would be associated with AIIB membership can be used for alternative purposes.

### **Option 2 - Joining the AIIB now**

Reinforce Ireland's existing positive overall bilateral and political relationship with China/Asia, and the associated economic and trade relationships with China/Asia, by supporting the AIIB which is an initiative reflecting China's emerging global presence.

Reinforce the strategic priority which successive Irish governments, particularly the present one, have given to China and Asia.

The above-specified benefits for the existing trade relationship would also be experienced by Irish businesses and it could create more jobs.

Improved potential for Irish businesses regarding business opportunities which AIIB membership may offer in AIIB-financed projects.

Maintain Ireland's influence in the international financial architecture by having a role/presence in the AIIB, and taking our place among our counterparts from other Countries.

Apply experience from Ireland's role in other International Financial Institutions and reinforce the synergies available from being a member of an increased number of such Institutions. This would maintain Ireland's current proactive role in international affairs.

### **Option 3 - Joining the AIIB at a future time**

For a short time, financial resources which would be associated with AIIB membership can be used for alternative purposes.

Delayed, and thereby endangered, benefits for the existing bilateral/political and economic/trade relationship would also be experienced by Irish businesses and could result in job losses.

Potential to learn from further observation of the operations of the AIIB and from the experiences of existing members of the AIIB.

Delayed potential for Irish businesses regarding business opportunities which AIIB membership may offer in AIIB-financed projects.

## **Impacts**

### **Rural Communities**

There are no negative impacts on rural communities foreseen as a result of the implementation of these recommendations.

There are potential benefits for rural communities and the Irish farming and agri-sector. China is now Ireland's second biggest agri-food export destination after the EU market. China is a primary target of Food Wise 2025 (Ireland's 10-year strategy for agri-food) with China's self-sufficiency for food production declining amidst steady growth in demand. *Food Wise 2025* identifies China as a key emerging market for potential growth, with significant growth opportunities across all subsectors of the Irish agri-food industry. The strategy estimates that 20 percent of China's population will reach middle-income status by 2050, representing growing market potential. In addition, the strategy outlines that China is the world's largest importer of seafood and is predicted to become a €15.5 billion seafood import market by 2020. This indicates potential for a broad number of subsectors of the Irish agri-food industry.

This demonstrates that China is an important destination for Ireland's agri-food exports and that there are significant growth prospects. This has the potential to support employment and expansion of Ireland's agri-sector, a truly national sector of the economy which is based both on farms and in processing facilities in communities nationwide.

### **Employment**

There are no negative impacts on employment foreseen as a result of the implementation of these recommendations.

Ireland's AIIB membership would maintain our current strong relationship with China and Asia, reflecting the growing geopolitical and economic importance of China to Ireland. This would support bilateral trade and co-operation which has grown in significance over the past 15 years and, importantly, it would support the employment created and sustained in Ireland as a result of this increasingly important source of economic growth and trade.

Relationship-building is an important element of business and culture in Asian Countries. In this respect, it is important that Ireland maintains a close bilateral relationship with China because this would support and provide context to the improving bilateral trade relationship.

Conversely, to not join the AIIB would raise questions regarding Ireland's position on China's increasing integration into the global economy and international financial architecture, and it would be at variance with the other very positive aspects of our bilateral relationship. The result may be a weakening of the trade relationship and possible adverse impacts on employment created and sustained by Ireland-China bilateral trade.

In summation, the recommendations will support policies focused on creating jobs and thereby increasing the potential to reduce unemployment.

### **Other Impacts**

There are no negative impacts for the following: Gender equality; Poverty and social exclusion; Competitiveness and industry costs, quality of regulation, North-South, East-West Relations, and People with disabilities.

## Section 5: Consultation

This policy mostly affects the Department of Finance and the Department of Foreign Affairs & Trade, and it does not have a particular impact on the citizens, market or industry in Ireland.

Extensive consultation has taken place with the Department of Foreign Affairs & Trade, the overseas Offices of that Department (Embassy in Beijing and Ireland's Permanent Representation to the EU), other EU Member States and other relevant Countries.

There is a particular emphasis in this policy on trade and employment, with the protection of jobs being the ultimate objective. The Department of Foreign Affairs & Trade, the Department of Jobs, Enterprise & Innovation, and the Department of Agriculture, Food and the Marine are the key stakeholders. The policies of these Department's, as communicated publicly by them, have been built into the policy rationale.

All Government Departments were consulted on the Memorandum for Government which provided for publication of the Bill.

## Section 6: Enforcement and Compliance

The proposal involves the use of primary legislation. Incorporated in this is a requirement for Oireachtas approval for both the Bill and any future amendments to the Act thereafter.

## Section 7: Review

### **Consultation**

At all International Financial Institutions of which Ireland is currently a member, there is extensive consultation with the Department of Foreign Affairs & Trade, and any other relevant Government Departments as required. This will also be the case in respect of the AIIB. This contributes to coherence and consistency for Ireland's policies at the International Financial Institutions.

### **Evolution**

There will be one further Memoranda as part of the process for this proposal. The process will also include a number of Oireachtas debates on the legislation.

As is the norm with Ireland's relationship with International Financial Institutions, each time the Institution seeks expand its mandate and/or operations, there will be opportunities for Ireland, as members of the Institution, to be consulted regarding the proposals and to review the proposals in advance of Ireland's agreement being sought.

We will work with our EU counterparts and other like-minded Countries in setting the strategic direction and policy priorities of the AIIB.

### **Public accountability:**

As is the norm for Ireland's relationship with International Financial Institutions, accountability will be ensured on the basis of reviews, in accordance with their mandate, by the Office of the Comptroller and Auditor General and the Public Accounts Committee. The expenditure associated with Ireland's membership of the AIIB will be published annually in the Finance Accounts. The proposal involves the use of primary legislation. Incorporated in this is a requirement for Oireachtas approval for both the Bill and any future amendments to the Act thereafter.



## Section 8 Publication

This RIA is being published along with legislation for Ireland's membership of the AIB.

Any further versions beyond that RIA will be published in accordance with the RIA Guidelines for publication relating to primary legislation.