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Asian Infrastructure Investment Bank

Overview

In October 2013, at the Asia-Pacific Economic Cooperation Summit in Bali, Indonesia, China proposed creating a new multilateral development bank, the Asian Infrastructure Investment Bank (AIIB). As its name suggests, the Bank's stated purpose is to provide financing for infrastructure needs throughout Asia.

As the first Chinese-led multilateral development Bank (MDB), the AIIB presents several policy issues including the Bank's governance and operational practices, the U.S. role and possible participation, and the relationship between the AIIB and the existing MDBs. Some observers have also raised concerns about the transparency and governance of China-funded development projects. They argue that the AIIB may undermine decades of effort by the United States to improve governance, environmental, and social standards; these standards have been achieved through conditions attached to World Bank, ADB, and other MDB loans.

Background

According to the Asian Development Bank (ADB), the region needs around $750 billion in annual investment in infrastructure. This sum is substantially greater than any individual country or existing multilateral development bank (MDB) can provide. Collectively, existing MDBs currently provide around $130 billion of annual infrastructure financing globally. Addressing Asia's large infrastructure gap will likely require mobilizing public and private sources of financing, as well as new sources of long-term development finance.

The AIIB was initially conceived as a regional financing mechanism for Chinese President Xi Jinping's "One Belt, One Road" initiative to create a network of highways, railways and other critical infrastructure linking China to Central and South Asia, the Middle East and Europe (the Silk Road Economic Belt) and expanding ports throughout Asia, the Middle East, Africa and Europe (the Maritime Silk Road).

At the same time that China is working to deepen its economic relationships with its neighbors it has intensified its engagement with the "Bretton Woods Institutions"—the World Bank, International Monetary Fund (IMF) and the regional development banks—with the aim of reforming the governance and operations of these institutions to accommodate China's increased economic influence. Chinese leaders have complained for many years that the international financial institutions have been too slow in recognizing China's increased stature in the global economy.

President Xi, more so than previous Chinese leaders, has pursued policies to establish new China-led trade and financial institutions, as well as to further integrate China within the existing international financial institutions. President Xi said that the AIIB would "promote interconnectivity and economic integration in the region" and "cooperate with existing multilateral development banks," including the World Bank and the ADB.

Figure 1. China's Silk Road Economic Belt and Maritime Silk Road Initiatives

Source: Xinhuanet.com and Barclays Research

In October 2014, 21 regional countries met in Beijing, China and signed a Memorandum of Understanding that set out the general principles undergirding the AIIB's creation. China set the deadline for expressing interest in joining the AIIB at the end of March 2015. U.S. officials were caught off-guard when, in early 2015, the United Kingdom, followed by several other European countries, sought membership in the Chinese-led AIIB. By the time the AIIB's Articles of Agreement were signed in December 2015, the Bank had 57 founding members, representing every region except North America.

As AIIB membership grew to include European and other advanced economies, Chinese officials distanced the AIIB, to an extent, from China's "One Belt, One Road" strategy by agreeing to co-finance its initial projects with the preexisting MDBs. However, it is uncertain how China will balance its stated goal of establishing an independent and high-standard MDB while pursuing its own economic and national security priorities for the region. In June 2016, during a meeting with global executives, the AIIB President Jin Liquin blurred the lines between the AIIB and Chinese national interests, saying that while it would support "One Belt, One Road" projects, "the AIIB was not created exclusively for this initiative."

In spring 2016, it was reported that the AIIB's initial projects would fund transportation projects in three key

"One Belt, One Road" countries: Pakistan (co-financed with the ADB and the United Kingdom), Tajikistan (co-financed with the European Bank for Reconstruction and Development (EBRD)), and Kazakhstan (co-financed with the World Bank and the EBRD). To date, the AIIB has approved 24 projects worth a total of $4.23 billion. In India, the AIIB has approved $1.5 billion in infrastructure projects in 2018 alone.

Membership and Organization

The AIIB was formally established in late 2015 and, as of February 2018, has 61 members and 23 prospective members. Membership in the AIIB is open to all members of the World Bank or the ADB. Regional members are those located within areas classified as Asia and Oceania by the United Nations. Several European and Asian advanced economies are AIIB members including France, Germany, Italy, the United Kingdom, Australia, New Zealand, South Korea, and New Zealand.

The AIIB's initial total capital is $100 billion, with 20% paid-in and 80% callable capital. China is contributing $50 billion, half of the initial subscribed capital. India is the second-largest shareholder. The Bank is based in Beijing, China and headed by Jin Liqun, a former Chinese vice minister of finance, sovereign wealth fund chairman, and ADB vice-president.

China's voting share at the AIIB (26%) is 71% larger than that of the second largest AIIB member nation, India (7%). This is the largest gap between the first and second largest shareholders at any of the existing MDBs, although the United States has the largest voting in any single MDB (30% at the Inter-American Development Bank).

The AIIB has a governance structure similar to other MDBs, with two key differences: (1) it does not have a resident board of executive directors that represents member countries' interests on a day-to-day basis; and (2) the AIIB gives more decisionmaking authority to regional countries and the largest shareholder, China.

MDBs typically have a board of governors, a board of executive directors, a president, and several vice-presidents. The board of governors is the highest decisionmaking body and generally is comprised of treasury secretaries or finance ministers of member countries. Management of the MDB's day-to-day activities (approving loans, establishing policies, and overseeing MDB management) is typically delegated to a resident board of directors, which meets at least once a week. In comparison, the powers delegated to the AIIB's executive board are modest and limited to establishing AIIB policies; supervising AIIB management and operations; and approving strategic, planning, and budget documents.

Issues for Congress

China's Economic Diplomacy

Chinese officials see economic development in the region as helping to guard against regional instability (e.g., in Afghanistan, Pakistan, and Central Asia) and deepening regional political links to Beijing. Regional Chinese infrastructure financing may also serve to channel China's overcapacity in its manufacturing and construction sectors. Over the past decade, China has devoted around half of its GDP to domestic investment. If the current slowdown in the Chinese economy continues, regional infrastructure financing would be a way to redirect China's excess capacity in sectors such as rail and highways or port construction.

China's efforts on behalf of the AIIB also raise questions about China's relationship with the existing MDBs, where it remains a large borrower. Critics question why China still borrows large volumes from the MDBs, often for infrastructure projects, yet believes it has sufficient management expertise to lead a new MDB.

Transparency and Governance Concerns

Several operational aspects of the proposed AIIB raise concerns for some U.S. officials. The Obama Administration expressed no interest in the United States joining the AIIB and reportedly unsuccessfully lobbied several countries against joining. China's large voting power combined with the AIIB's nonresident executive board has led some analysts to question the AIIB's independence from Chinese leaders.

China, through its bilateral aid, has supported large-scale infrastructure projects throughout Asia with less regard to social or environmental standards, or the underlying institutions in the recipient country than the MDBs. Some observers are concerned that some developing countries will resist the safeguards and conditions attached to World Bank or ADB loans and turn to the AIIB instead. Chinese officials have given assurances that the AIIB would adopt the MDBs' best practices. Competitive pressure from the AIIB and other sources of financing may also lead the MDBs to reconsider the World Bank's international best practices in procurement policies and other safeguards. Absent best practices on procurement and other safeguards, there may be greater potential for corruption in MDB-funded projects, especially in countries with weak domestic institutions.

Commercial Implications for U.S. Firms

Many European governments may have joined the AIIB to ensure access for their domestic firms in bidding for contracts on potential infrastructure projects. While China has issued assurances that there will be open and transparent procurement, it remains uncertain to what extent firms from non-AIIB member countries will be considered for bidding on AIIB projects. China's existing loan and project management practices continue to cause worry among some observers. The impact that AIIB lending may have on setting technological standards in the region is another concern. For example, if China uses the AIIB to install Huawei network and telecommunications equipment throughout the Asia-pacific region, U.S. technology firms might be effectively kept out of the Asia-Pacific market.

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