Updated January 21, 2021

Asian Infrastructure Investment Bank

Background

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. The AIIB has also been active in the response to the Coronavirus Disease 2019 (COVID-19) pandemic and is providing up to $13 billion in support to member countries to support their pandemic responses. The AIIB's Crisis Recovery Facility was created in April 2020 and is supporting various health sector and economic resilience projects. The AIIB also notes that the crisis facility can be used to shore up liquidity for other China-financed infrastructure investments.

As the first China-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, Asian Development Bank (ADB), and other MDB loans. Other analysts note the AIIB's track record of facilitating projects and implementing robust safeguards and policies during its five years in existence and argue that the time may have come for the United States to consider joining the Bank.

Background

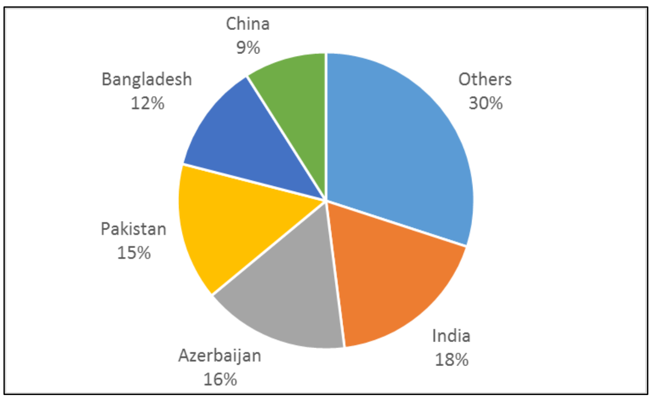
Some estimate that potential infrastructure projects in Asia could amount to $26 trillion through 2030, and would likely require mobilizing public and private sources of financing, as well as new sources of long-term development finance. The AIIB was initially conceived as a regional financing mechanism for China's "One Belt, One Road" initiative to create a network of highways, railways and other critical infrastructure linking China to the rest of the world. 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. China's 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, 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.

In October 2014, 21 Asian 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 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 of January 2021, membership has almost doubled, with the Bank approving 103 members. By contrast, the IMF and the World Bank have 119 member countries.

As of November 2020, the AIIB has approved a total of $21.5 billion in new projects in 26 countries, up from $12 billion as of December 2019. India is the largest borrower **(Figure 1)**.

Figure 1. AIIB's 5 Largest Borrowers, December 2020



Source: AIIB, Standard and Poor's

As AIIB membership grew to include European and other advanced economies, China's leadership distanced the AIIB, to an extent, from China's "One Belt, One Road" initiative 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.

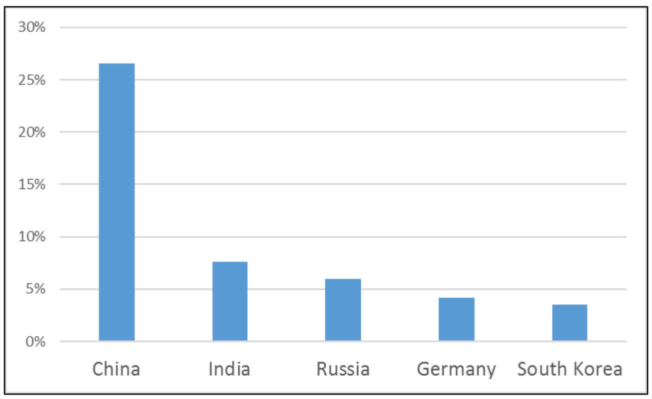
In recent years, the AIIB has also increased its share of stand-alone projects and decreased the share of loans co-financed with other MDBs. As of November 2020, 54% of the AIIB projects were co-financed with other institutions, compared to 67% in June 2018. According to December 2020 Standard and Poor's analysis, private sector lending is expected to become a larger share of Bank lending, reaching 50% over time. It was 27% of AIIB's total approvals of $12 billion as of year-end 2019.

Membership and Organization

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. Seventeen of the G-20 members are also AIIB members. Only the United States, Japan, and Mexico are not AIIB members.

The AIIB's total capital is $100 billion, with 20% paid-in and 80% callable capital. As of September 2020, $18.9 billion of the Bank's $20 billion paid-in capital has been subscribed. China is contributing $50 billion, half of the subscribed capital. India is the second-largest shareholder. The Bank is based in Beijing, China and headed by Jin Liqun, China's former vice minister of finance and former chairman of the supervisory board of China's sovereign wealth fund. President Jin was elected to a second five-year term, which started on January 16, 2021. China is, the largest shareholder and its voting power (27%) is substantially greater than the second largest AIIB member, India (8%) **(Figure 2)**. This is the largest gap between the top two shareholders at any of the existing MDBs, although the United States has the largest voting share in any single MDB (30% at the Inter-American Development Bank).

Figure 2. AIIB Total Voting Power, January 2021



Source: AIIB

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) it gives more decision-making authority to regional countries and the largest shareholder, China, which has veto power over operational matters. Management of most 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 Asia as helping to guard against regional instability (e.g., in Afghanistan, Pakistan, and Central Asia) and deepening regional commercial and political links to Beijing. China's regional infrastructure financing may also serve to channel China's overcapacity in its manufacturing and construction sectors. 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 AIIB raise concerns for some U.S. officials. The Obama and Trump Administrations did not see joining the AIIB as in the U.S. interest. China's large voting power combined with the AIIB's nonresident executive board has led some analysts to question the AIIB's independence from China's leaders. However, since the Bank's founding, its membership has grown to include almost all of the world's countries, it has developed robust operational guidelines and standards, and it maintained AAA ratings from the major rating agencies.

Notwithstanding the AIIB's track record, China, through its infrastructure financing/loans and bilateral aid, has often 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 (including the AIIB). Some observers argue that competitive pressure from the AIIB and China's bilateral sources of financing may also lead some 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 are 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 set up infrastructure for communications, transportation, and energy that use Chinese equipment or services or connect more broadly to China's networks this potentially gives China an ability to develop a strong commercial foothold in Asia that could disadvantage or exclude U.S. firms.

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