



Centre for Banking & Finance Law  
Faculty of Law

## Working Paper

### **The Asian Infrastructure Investment Bank (AIIB) as an Alternative MDB: A Competitor or a Compensator?**

CBFL-WP-JS04

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6 July 2016

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**ABSTRACT:**

The China-initiated Asian Infrastructure Investment Bank (AIIB) was signed by 57 prospective founding members (PFMs) as of December 31, 2015. Through developing infrastructure, energy, transportation, telecommunications, agriculture, and logistics in line with the “New Silk Road,” Chinese government expects to solve overcapacity, utilize huge foreign exchange reserves, and promote the RMB internationalization. This paper will compare the roles of emerging AIIB and traditional multilateral development banks (MDBs), as well as address the following issues: (a) The connection between China’s “One Belt, One Road (OBOR) Initiative” and the establishment of AIIB; (b) Potential conflicts of interest between the AIIB and Asian Development Bank (ADB) in the rebalance of regional financial resources, and AIIB’s coordination with other international financial institutions such as the WB, IMF and BRICS Bank; (c) Issues on AIIB’s organization and corporate governance (for example, China’s veto power and other countries’ concerns of AIIB’s “governance and transparency”); (d) AIIB’s financial approaches. In the end, this paper reaches a conclusion whether AIIB would play the role of a competitor or a compensator.

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**[Key Words]** Asian Infrastructure Investment Bank (AIIB); Asian Development Bank (ADB); Multilateral Development Bank (MDB); One Belt One Road (OBOR) Initiative; Silk Road Fund; ASEAN; CAREC

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## **I. The New Silk Road, “One Belt, One Road” (OBOR) Strategy and AIIB**

The estimated demand for infrastructure investment, such as energy, transport, water, sanitation, and telecommunications from 2010 to 2020 is US \$776 billion each year, of which financing of US \$747 billion is for national infrastructure and US\$29 billion is for regional infrastructure. The investment needs concern over 1,200 regional infrastructure projects.<sup>1</sup> A conservative estimate for the requirement for infrastructure investment would be US\$8.3 trillion during this period.<sup>2</sup>

### **A. The Origin of New Silk Road**

In 2011 after withdrawing from Afghanistan, the United States launched the New Silk Road Strategy for greater Central Asian economic and infrastructure in order to maintain the political stability.<sup>3</sup> In 2013, Chinese Chairman Xi Jinping put forward the Chinese version of Silk Road, which later developed into the “One Belt, One Road” initiative. The two versions of New Silk Road Strategy are quite different in many aspects.

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<sup>1</sup> Biswa Nath Bhattacharyay, “Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020” (September 2010) *Asian Development Bank Institute Working Paper No. 248*, available at: <http://www.adb.org/sites/default/files/publication/156103/adbi-wp248.pdf>.

<sup>2</sup> Ibid, p. 20.

<sup>3</sup> James McBride, “Building the New Silk Road” (25 May 2015), <http://www.cfr.org/asia-and-pacific/building-new-silk-road/p36573>.

	<b>“New Silk Road Strategy”</b>	<b>“One Belt, One Road” Initiative</b>
Initiators	Prof. S. Frederick Starr and Senator Sam Brownback first put forward the concept of “new silk road” <sup>4</sup>	Chinese Chairman Xi Jinping put forward to construct “the Silk Road Economic Belt” in September 2013 and “The 21 <sup>st</sup> Century Maritime Silk Road” in October 2013. In December 2013, the <i>Decision of the Central Committee of the Communist Party of China on Several Major Issues Concerning Comprehensively Deepening Reforms</i> <sup>5</sup> confirmed the OBOR strategy.
Geographic Coverage	Afghanistan + Five Central Asian countries	Linking China with Europe, Central Asia, Russia, Middle East, Southeast Asia, South Asia, and India Ocean

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<sup>4</sup> The “New Silk Road” was first used in October 1997 by Senator Sam Brownback (R-KS) in his proposed “Silk Road Act” in cooperation with Prof. S. Frederick Starr. Later it was developed as a U.S. strategy by Prof. S. Frederick Starr in his works titled “Afghanistan beyond the Fog of Nation Building: Giving Economic Strategy a Chance” (January 2011), “A Strategic Assessment of Central Asia and the Caucasus, 1999-2000” and “The New Silk Roads” (2008). See Guli Yuldasheva and Mavlon Shukurzoda, “New Silk Road Strategy: Problems and Perspectives – Interview with Prof. S. Frederick Starr”, available at: [http://www.jamestown.org/regions/centralasia/single/?tx\\_ttnews%5Bpointer%5D=42&tx\\_ttnews%5Btt\\_news%5D=38696&tx\\_ttnews%5BbackPid%5D=53&cHash=a986dde4d464f2d0c7ad736679a099b7](http://www.jamestown.org/regions/centralasia/single/?tx_ttnews%5Bpointer%5D=42&tx_ttnews%5Btt_news%5D=38696&tx_ttnews%5BbackPid%5D=53&cHash=a986dde4d464f2d0c7ad736679a099b7).

<sup>5</sup> This decision was promulgated by the Central Committee of CPC on November 12, 2013.

	<b>“New Silk Road Strategy”</b>	<b>“One Belt, One Road” Initiative</b>
Objectives	“Modern Silk Road” strategy: <sup>6</sup> Re-establish the Afghan role as a Eurasia hub of transport and trade; Facilitate independence of Central Asian countries	Build six international economic cooperation corridors: <sup>7</sup> New Eurasia Land Bridge, China-Mongolia-Russia, China-Central Asia-West Asia, China-Indochina Peninsula, China-Pakistan, Bangladesh-China-India-Myanmar
International Financial Institution Investors	World Bank; Asian Development Bank; EBRD/CAREC; Islamic Development Bank	AIIB New Development Bank Silk Road Fund Shanghai Cooperation Organization
Invested Industries	Transport (Roads, Railroads, Aviation) linking Central Asia and South Asia; Construction of natural gas pipelines, electricity networks and infrastructure Facilitation of trade	Infrastructure facilities connecting Asia, Europe and Africa, including railways, highways, air routes, telecommunications, oil, and natural gas pipelines and ports <sup>8</sup>
Cooperation Areas	Promote market economy and international trade	Five key cooperation areas: <sup>9</sup> (a) Policy co-ordination (b) Facilities connectivity (c) Unimpeded trade (d) Financial integration (e) People-to-people bonds

<sup>6</sup> S. Frederick Starr, Andrew C. Kuchins. with Stephen Benson, Elie Krakowski, Johannes Linn, and Thomas Sanderson, “The Key to Success in Afghanistan: A Modern Silk Road Strategy” (May 2010) *Silk Road Paper*, Published by the Central Asia-Caucasus Institute & Silk Road Studies Program in Cooperation with the Center for Strategic & International Studies, available at:

file:///C:/Users/Administrator/AppData/Local/Microsoft/Windows/Temporary%20Internet%20Files/Content.IE5/I9Y49I43/2010\_starr-kuchins\_key-to-success.pdf.

<sup>7</sup> Hong Kong Trade Development Council, “The Belt and Road Initiative” (21 January 2016), available at: <http://china-trade-research.hktdc.com/business-news/article/One-Belt-One-Road/The-Belt-and-Road-Initiative/obor/en/1/1X000000/1X0A36B7.htm>.

<sup>8</sup> Ibid

<sup>9</sup> Ibid



## **B. China's Belt and Road Initiative: A “New Marshall Plan”?**

After the Global Financial Crisis (GFC), Justin Yifu Lin first advised a “Global Marshall Plan”<sup>10</sup> in early 2009 when he was the Chief Economist and Vice President of the World Bank. He suggested a global recovery program, which invested a \$2 trillion stimulus package with pension funds of developed countries (U.S., EU, and Japan) and foreign reserves of China and Organization of the Petroleum Exporting Countries (OPEC) in developing countries’ infrastructure over the next five years.<sup>11</sup> Later, he proposed to set up a “Global Structural Transformation Fund”<sup>12</sup> and made a further suggestion on “One Belt, One Road + One Continent”.<sup>13</sup>

In July 2009, Shanda Xu, the previous deputy director of China’s State Administration of Taxation, put forward the “Chinese Marshall Plan” in a meeting in response to the export decline. He proposed a sharing development plan in order to facilitate Chinese enterprises to “go global” and solve the domestic overcapacity. This plan is enlightened by the U.S.

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<sup>10</sup> Reuters, “UPDATE 1-World Bank economist urges new ‘Marshall Plan’” (9 February 2009), available at: <http://www.investing.com/news/forex-news/update-1-world-bank-economist-urges-new-%22marshall-plan%22-27955>.

<sup>11</sup> Jirong Yuan, ““Chinese Marshall Plan” a Sound Notion” (22 April 2009) *Global Times*, available at: <http://www.globaltimes.cn/content/427625.shtml>.

<sup>12</sup> Justin Yifu Lin and Yan Wang, “Beyond the Marshall Plan: A Global Structural Transformation Fund: Submitted to the High Level Panel on the Post-2015 Development Agenda” (May 2013), available at: [http://www.post2015hlp.org/wp-content/uploads/2013/05/Lin-Wang\\_Beyond-the-Marshall-Plan-A-Global-Structural-Transformation-Fund.pdf](http://www.post2015hlp.org/wp-content/uploads/2013/05/Lin-Wang_Beyond-the-Marshall-Plan-A-Global-Structural-Transformation-Fund.pdf).

<sup>13</sup> Justin Lin’s global structural transformation plan covers infrastructure investment of OBOR and Africa.

“Marshall Plan” after World War II, which provided financial aids in assisting European economic recovery.<sup>14</sup> The “Chinese Marshall Plan” is to provide sovereign loans for developing countries in Asia, Africa, and Latin America to develop national or regional infrastructure. Unlike the “Marshall Plan”, the main objectives of the “Chinese Marshall Plan” are output capacity, RMB internationalization, and usage of foreign reserves. The Shanghai Free Trade Zone, One Belt, One Road, and the Asian Infrastructure Investment Bank are regarded as related strategies of the “Chinese Marshall Plan”. At present, this plan is mainly implemented in regions of Central Asia and ASEAN.<sup>15</sup>

“One Belt and One Road” (OBOR) refers to “The Silk Road Economic Belt” and “The 21st Century Maritime Silk Road”.<sup>16</sup> In September 2013, Chinese Chairman Xi Jinping first put forward the OBOR strategy at the government level. One month later, Chairman Xi proposed to jointly construct “The Maritime Silk Road” when he visited ASEAN countries. In December 2013, the *Decision of the Central Committee of the Communist*

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<sup>14</sup> The “Marshall Plan” is officially called as “the European Recovery Program” (ERP). On June 5, 1947, George Marshall, Secretary of State, made the “the Marshall Plan Speech” at the Harvard University. From April 8, 1948 to June 30, 1952, the ERP provided economic support in order to rebuild Western Europe economies. See the George C. Marshall Foundation, “The Marshall Plan”, <http://marshallfoundation.org/marshall/the-marshall-plan/>.

<sup>15</sup> Baidu Baike, “Chinese Marshall Plan”, [http://baike.baidu.com/link?url=SV\\_tcZVxtCI7GmVbK0Cx05oENhswHFhUCSsf2ib\\_XP7rT8FLv\\_F99f\\_vqO37kjRcM9OYvAIrjIVLJkaXLs4Peq](http://baike.baidu.com/link?url=SV_tcZVxtCI7GmVbK0Cx05oENhswHFhUCSsf2ib_XP7rT8FLv_F99f_vqO37kjRcM9OYvAIrjIVLJkaXLs4Peq).

<sup>16</sup> The *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* issued by NDRC on March 28, 2015, available at: [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html).

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confirmed the OBOR strategy in order to promote regional development.<sup>17</sup>

The Chinese Marshall Plan includes the following contents:

- (a) Using US\$500 billion to set up the fund of “Harmonious World Plan” or “Sharing Development Plan”<sup>18</sup> with platforms of the New Development Bank (NDB, or “BRICS Bank”) and the Asian Infrastructure Investment Bank (AIIB);
- (b) Announcing that China would like to provide sovereign loans for friendly countries to construction infrastructure in Asia, Africa, and Latin America via channels of the Shanghai Cooperation Organization, China -ASEAN Free Trade Area and Forum on China-Africa Cooperation;
- (c) Mainly providing commercial loans with interest rates lower than general commercial loans but higher than U.S. treasury bonds, of which a small amount of loans can be free loans;
- (d) Governments of borrowed countries voluntarily apply for project loans and fulfil obligations of debt service;
- (e) Construction of projects and procurement should be conducted by Chinese enterprises.<sup>19</sup>

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<sup>17</sup> This decision was promulgated by the Central Committee of CPC on November 12, 2013.

<sup>18</sup> “Started by Investing USD500 Billion, the China-version Marshall Plan Will Produce Overseas Market Demand” (15 August 2009) *China Business*, available at: <http://finance.sina.com.cn/g/20090815/00436621883.shtml>.

<sup>19</sup> “The Chinese Version ‘Marshall Plan’” is not an official expression of Chinese government. It is regarded as a summary of China’s overseas strategic investments. See Baidu Baike, “The Chinese Marshall Plan”,

The OBOR Initiative was questioned as China-centric with potential credit risk and market risk.<sup>20</sup> Although this strategy will enlarge China's economic and geopolitical influence and bring forth alternative development finance in the current global financial system, infrastructure financing projects face the challenge of low return with high risk.<sup>21</sup> For example, if we review the 65 countries of OBOR,<sup>22</sup> nearly half of the countries do not have credit ratings; while only 58.8% of the rest rated countries reached ratings of "BBB" or above,<sup>23</sup> although the project finance is based upon infrastructure project revenue.

On the other hand, quite a few Research Institutes of Chinese securities firms, such as Haitong Securities, Industrial Securities, and Shenyin Wanguo Securities, issued research

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[http://baike.baidu.com/link?url=SV\\_tcZVxtCl7GmvbK0Cx05oENhswHFhUCSsf2ib\\_XP7rT8FLv\\_F99f\\_vqO37kjRcM9OYvAIrjlVLJkaXLs4Peq](http://baike.baidu.com/link?url=SV_tcZVxtCl7GmvbK0Cx05oENhswHFhUCSsf2ib_XP7rT8FLv_F99f_vqO37kjRcM9OYvAIrjlVLJkaXLs4Peq).

<sup>20</sup> Jiayi Zhou, Karl Hallding and Guoyi Han, "The Trouble with China's 'One Belt One Road' Strategy: The 'One Belt, One Road' Strategy Risks Exacerbating China's Economic Imbalances" (26 June 2015) *The Diplomat*, available at: <http://thediplomat.com/2015/06/the-trouble-with-the-chinese-marshall-plan-strategy/>.

<sup>21</sup> Ben Hillman, "Silk Road Blocks: The Problem with China's One Belt, One Road Polity" (November 2015), available at: <http://thediplomat.com/2015/06/the-trouble-with-the-chinese-marshall-plan-strategy/>.

<sup>22</sup> The OBOR Initiative covers 65 countries, which occupy 41.3% of the global size. The economic aggregate in this region is up to US\$27.4 trillion, which accounts for 38.2% of the global economic aggregate. The OBOR Initiative covers sixty-five countries. Many of them are developing countries, which are short of infrastructure of water, roads and electricity. Developing infrastructure in this region will greatly benefit a large population of 4.67 billion. See the OBOR Research, <http://www.oborr.com/Index/countrys/cid/0>.

<sup>23</sup> [www.fitchrating.com.cn](http://www.fitchrating.com.cn)

reports on this global version of “New Four Trillion Stimulus Plan”.<sup>24</sup> In November 2014, Haitong Securities published a research report on the Chinese Version Marshall Plan and “Go Global Strategy”. This report cited successful experience of the U.S. and Japan in output capacity and suggested that China should export overcapacity (e.g. steel, concrete industries) through overseas infrastructure investment in the meanwhile promote the RMB internationalization, following the example of the Marshall plan from 1948 to 1952.<sup>25</sup> The following table compares “the Marshall Plan” and the new “Chinese Marshall Plan”:

	<b>“Marshall Plan”</b>	<b>“Chinese Marshall Plan”</b>
Time Period	April 1948 – June 1952	After 2014
Investment Amount	US\$13 billion <sup>26</sup>	US\$500 billion all together
Invested Areas	Major industrial countries in Western Europe	OBOR + Africa (Currently Central Asia, ASEAN)
Objective	Help western Europe economies recover from the World War II	Output China’s overcapacity; RMB Internationalization; Facilitate overseas investment; And reshape international trade and global currency system
Leading Country	U.S.-led	China-led
Invested Industries	Provide aids in food, materials, equipment and infrastructure	Mainly infrastructure, including energy, transportation, telecommunications, agriculture, and logistics.

<sup>24</sup> In November 2008, China announced to launch a “Four Trillion Stimulus Plan” (approximately US\$570 billion) as a national response to the global financial crisis in order to boost domestic demand.

<sup>25</sup> Haitong Securities, “Who Says History Cannot Be Copied: On the Chinese Version Marshall Plan and the ‘Go Global’ National Strategy” (5 November 2014), available at: [http://blog.sina.com.cn/s/blog\\_6b812ae10102v6fn.html](http://blog.sina.com.cn/s/blog_6b812ae10102v6fn.html).

<sup>26</sup> The USD13 billion in 1948 is about USD130.39 billion in 2016 in CPI Inflation Calculator, but it values much more using compound interest.

### C. The OBOR Strategy and AIIB: Challenges and Opportunities

In order to solve the problems of overcapacity and the economic slowdown, China quickly launched the OBOR Initiative after 2014. Several financial instruments such as the Silk Road Fund, New Development Bank, and Asian Infrastructure Investment Bank were established for the implementation of the OBOR Initiative. The following table shows the timeline of establishment of the AIIB and its recent operations:<sup>27</sup>

October 2013	Chinese President Xi Jinping and Prime Minister Li Keqiang announced the AIIB initiative respectively during his visit to ASEAN
October 24, 2014	22 countries signed the Memorandum of Understanding (MOU) to establish the AIIB
November 2014	First Chief Negotiators' Meeting on Establishing the AIIB
November 2014 – November 2015	Eight Chief Negotiators' Meeting (CNM) on Establishing AIIB convened as the forum for the Prospective Founding Members (PFMs) to discuss over the AIIB Charter and other issues in Kunming, Mumbai, Kazakhstan, Beijing, Singapore, Tbilisi, Frankfurt, and Jakarta.
March 31, 2015	By the deadline for membership applications, 57 countries, including 20 non-regional countries, submitted applications for founding membership.
June 29, 2015	PFMs' Special Ministerial Meeting was held in Beijing. The China-backed AIIB launched. Thereafter, 57 PFMs signed AOA by December 31, 2015.

<sup>27</sup> Refer to the website of AIIB, [www.aiib.org](http://www.aiib.org).

December 25, 2015	AOA came into force, as stipulated by Article 50 of AOA
January 16, 2016	AIIB announced to open for business
April 13, 2016	AIIB signed a Co-financing Framework Agreement with the WB for a co-financing project in Indonesia – National Slum Upgrading Project.
May 2016	AIIB signed non-binding MOUs on strengthening cooperation for sustainable development with ADB, EBRD, and EIB respectively
May 31, 2016	Liqun Jin said that 30 countries were waiting to join the AIIB, and the AIIB would have nearly 100 members by the end of 2016 <sup>28</sup>
June 24, 2016	AIIB approved the first four project loans, three of which was co-financing with the WB, EBRD, and ADB; on the same day, the AIIB Board of Directors decided to establish a Project Preparation Special Fund.
June 25- 26, 2016	First Annual Meeting of AIIB was held in Beijing
June 29, 2016	WB and AIIB signed joint co-financing agreement, which “paves the way for the two institutions to jointly develop projects this year”. <sup>29</sup>

<sup>28</sup> Xiang Li, “AIIB to Have Almost 100 Members by Year-end” (31 May 2016) *China Daily*, available at: [http://www.chinadailyasia.com/business/2016-05/31/content\\_15442263.html](http://www.chinadailyasia.com/business/2016-05/31/content_15442263.html).

<sup>29</sup> “World Bank and AIIB Sign Joint Co-financing Agreement” (29 June 2016), [agreement/](#).

## **II. Organization and Governance of the AIIB**

### **A. AIIB Membership**

The AIIB was established as an international development bank providing infrastructure funds to the Asia-Pacific area. At the beginning of March 2015, 27 regional countries submitted the application to become the AIIB founding members. The turning point was on March 12, when George Osborne, UK Chancellor, announced that Britain would join the China-led investment bank. Subsequently, European countries (14 Western European countries and 5 Eastern European countries) joined this trend and within a month, by the deadline of membership application on March 31, 2015, 57 countries submitted applications for AIIB founding membership. The 57 Prospective Founding Members (PFMs) are composed of 37 regional members (e.g. ASEAN ten countries, Greater Central Asian countries, South Asian countries, etc.) and 20 non-regional member countries.

#### **(a) The Greater Central Asia**

Central Asia is the bridge connecting the markets of Europe and Asia. Two organizations, the Central Asia Regional Economic Cooperation (CAREC) and the Regional Economic Cooperation Conference for Afghanistan (RECCA), play a crucial role on the Eurasia network of economic cooperation. In Great Central Asia, Afghanistan is the hub for the Silk Road. The Regional Economic Cooperation Conference for Afghanistan (RECCA) is a regional organization to rebuild the Afghan economy. The CAREC is composed of ten member states in Central Asia and South Asia. The CAREC have obtained support from six multilateral organizations — the Asian Development Bank (ADB), European Bank for



Reconstruction and Development (EBRD), IMF, Islamic Development Bank (IDB), United Nations Development Programme (UNDP), and World Bank (WB). There are six Central Asia Corridors as key CAREC's ongoing projects:

- (i) CAREC Corridor 1: Europe – East Asia
- (ii) CAREC Corridor 2: Mediterranean – East Asia
- (iii) CAREC Corridor 3: Russian Federation – Middle East and South Asia
- (iv) CAREC Corridor 4: Russian Federation – East Asia
- (v) CAREC Corridor 5: East Asia – Middle East and South Asia
- (vi) CAREC Corridor 6: Europe – Middle East and South Asia

According to the “CAREC Transport and Trade Facilitation Strategy 2020,” the 32 ongoing and 76 new projects in the CAREC Transport and Trade Strategy (TTFS) have estimated costs of US\$38.8 billion by 2020.<sup>30</sup> The TTFS projects are financed by 49% from the governments of the CAREC, plus external financing and private sector.<sup>31</sup> All six corridors will finish the improvement by 2017.<sup>32</sup>

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<sup>30</sup> Central Asia Regional Economic Cooperation (CAREC), “Connecting CAREC: A Corridor Network” <http://www.carecprogram.org/index.php?page=carec-corridors>.

<sup>31</sup> ADB and CAREC, “CAREC Transport and Trade Facilitation Strategy 2020” (October 2014), <http://www.adb.org/sites/default/files/institutional-document/34107/files/carec-ttfs-2020.pdf>.

<sup>32</sup> CAREC, “Implementation Action Plan for the Transport and Trade Facilitation Strategy” (November 2008), <http://www.carecprogram.org/uploads/docs/CAREC-TTF-Strategy-and Trade Facilitation Strategy> (November 2008), endorsed by the Seventh Ministerial Conference on <http://www.carecprogram.org/uploads/docs/CAREC-TTF-Strategy-Implementation-Action-32 Implementation-Action-Plan.pdf>.

(b) ASEAN’s Membership in ADB, AIIB and TPP

As a promising region in Asia, ASEAN ten countries are members of both ADB and AIIB.

At present, four ASEAN countries have joined Trans Pacific Partnership (TPP).

<b>ADB</b>	<b>AIIB</b>	<b>TPP</b>
Brunei	Brunei	Singapore
Cambodia	Burma	Malaysia
Indonesia	Cambodia	Vietnam
Laos	Indonesia	Brunei
Malaysia	Laos	
Myanmar	Malaysia	
Philippines	Philippines	
Singapore	Singapore	
Thailand	Thailand	
Vietnam	Vietnam	

Except Singapore and Brunei, which already have well-developed infrastructure and maintenance, the other ASEAN countries have substantial investment needs for electricity, transportation, telecommunications, water, and sanitation. It is estimated that the infrastructure investment needs in ASEAN from 2013 to 2020 is US\$550 billion,<sup>33</sup> of ASEAN-4 (Malaysia, Indonesia, Thailand, and the Philippines) have great needs.

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<sup>33</sup> Goldman Sachs Asia Economics Analyst, “ASEAN’s Half a Trillion Dollar Infrastructure Opportunity” (30 May 2013), Issue No. 13/18, available at: <http://www.btinvest.com.sg/system/assets/14801/ASEAN%20infras%20opportunity.pdf>.

(c) Central and Eastern European (CEE) Member Countries

Through the OBOR Initiative, China strives to establish the “16+1” mechanism with sixteen Central and Eastern European countries. The “16+1” cooperation mechanism covers areas in international trade, agriculture, finance, and cultural exchange. Since 11 out of the 16 CEE countries have joined the EU, China hopes to use the “16+1” mechanism as a platform to facilitate economic links with the EU.<sup>34</sup> The CEE countries also expect to enhance coordination with China in energy, logistics, land trade, and infrastructure. For example, Romania will benefit from the Belt Road Strategy in energy sector; the China-Europe freight trains will bring economic opportunities for Poland to develop land trade and logistics with China and other countries.<sup>35</sup> In November 2015, Chinese President Xi signed MOU’s on promoting the OBOR Initiative with five CEE countries —Poland, Serbia, Czech, Bulgaria, and Slovakia. These five Eastern Europe countries, which joined the AIIB later, are not ADB members.

(d) Western Europe Member Countries

Fourteen European countries, including Austria, Denmark, Finland, France, Germany, Italy, Luxemburg, Malta, the Netherlands, Poland, Portugal, Spain, Sweden, the United Kingdom, have joined the AIIB as founding member countries. Participation of the

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<sup>34</sup> Xinhua Finance, “Belt Road Initiative Promotes China-CEEC Cooperation” (30 March 2016), <http://en.xinfinance.com/html/OBAOR/Analysis/2016/209630.shtml>.

<sup>35</sup> Xinhua Net, “Commentary: 16+1 Mechanism Injects Impetus into China-CEE Cooperation” (17 December 2014), [http://news.xinhuanet.com/english/china/2014-12/17/c\\_133861201\\_2.htm](http://news.xinhuanet.com/english/china/2014-12/17/c_133861201_2.htm).

European countries has dramatically turned the image of AIIB from a regional development bank into an international development bank.

(e) Japan

In mid-2015, China invited Japan to join the AIIB, but Japan was reluctant to Beijing's invitation.<sup>36</sup> As the only major U.S. ally that has not joined the AIIB, Japan has concerns about China's dealing with certain issues such as human rights, debt sustainability, environmental protection, and governance. The Japanese government's speaker recently said at the G7 summit, "Whether the AIIB would clear those elements is quite important for us. So unless those questions are cleared, Japan wouldn't position itself on whether to join or not."<sup>37</sup>

(f) Russia

Russia holds 5.93% of AIIB vote as the third largest shareholder of AIIB after China and India. The five Central Asian countries, which became independent from the previous Soviet Bloc in the 1990s, are members of the Commonwealth of Independent States (CIS). Traditionally, Russia controlled resources of oil and gas, as well as logistics in this region. At present, China and Russia have common interests in establishing the AIIB and changing

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<sup>36</sup> Xinhua Net, "Belt Road Initiative Promotes China-CEEC Cooperation" (30 March 2016), <http://en.xinfiance.com/html/OBAOR/Analysis/2016/209630.shtml>.

<sup>37</sup> Kyodo, "Japan Reluctant to Join China-led Investment Bank" (5 July 2014) *The Japan Times*, available at: <http://www.japantimes.co.jp/news/2014/07/05/national/politics-diplomacy/japan-reluctant-join-china-led-investment-bank/#.V3pJJ00cSUK>.

the international currency order. Russian President Putin has invited AIIB to invest in Russia development projects.<sup>38</sup>

Access to the AIIB membership is still open. On its website the AIIB expresses a welcoming attitude to members of the International Bank for Reconstruction and Development (IBRD) or members of the Asian Development Bank (ADB), although the decision of whether to accept new members rests on the Board of Governors.<sup>39</sup> Basically, there are regional members and non-regional members of AIIB. “Regional members” are defined in accordance with the criteria of the United Nations – “those located within areas classified as Asia and Oceania (see <http://unstats.un.org/unsd/methods/m49/m49regin.htm>), except as otherwise decided by the Board of Governors.”<sup>40</sup> This division is meaningful because China set up a proportion for the distribution of voting shares for itself, Asian countries, and non-Asian countries.

There were eight rounds of Chief Negotiators' Meetings(CNM's) on the Articles of Agreement (AOA) and other issues of establishing the AIIB from November 2014 to November 2015. In September 2015, AIIB expected that its members would grow to

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<sup>38</sup> “Japan Won't Decide on AIIB Membership until ‘Governance, Oversight Issues Addressed’” (8 June 2016) *South China Morning Post*, available at: <http://www.scmp.com/news/china/policies-politics/article/1818325/japan-wont-decide-aiib-membership-until-governance>.

<sup>39</sup> “Putin Invites AIIB to Participate in Russian Projects” (19 May 2016), <http://www.presstv.com/Detail/2016/05/19/466376/Putin-invites-AIIB-to-invest-in-Russia--->.

<sup>40</sup> AIIB, “FAQ”, [www.aiib.org](http://www.aiib.org)

70.<sup>41</sup> The 57 Prospective Founding Members (PFM's) signed the AOA by December 31, 2015. Members of the AIIB are increasing. According to Liqun Jin, the AIIB President, thirty countries are on the waiting list to join the AIIB, and by the end of 2016, AIIB will have 100 members.<sup>42</sup>

## **B. Voting Rules**

Basically, AIIB allocates the capital stock according to the proportion of member states' GDP in the regional group and non-regional group. AIIB's capital base is US\$100 billion, including 20% paid-in shares and 80% callable shares. AIIB issues 1 million shares, with each share' par value at US\$100,000. Upon the decision of the Board of Governors, AIIB may increase the authorized capital stock.<sup>43</sup>

In arranging voting power, China originally proposed to distribute voting shares as follows:<sup>44</sup>

- China: 50%
- Non-Asia States: 25%

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<sup>41</sup> Ibid

<sup>42</sup> Cynthia Kim and David Tweed, "AIIB to Grow to 70 Members Soon, Sees First Projects Early 2016" (9 September 2015) *Bloomberg News*, available at: <http://www.bloomberg.com/news/articles/2016-07-03/china-bank-bailout-calls-grow-louder-as-markets-seen-vulnerable>.

<sup>43</sup> Xinhua Net, "AIIB President Says Bank to Have 100 Members by Year End" (1 June 2016), [http://news.xinhuanet.com/english/2016-06/01/c\\_135404466.htm](http://news.xinhuanet.com/english/2016-06/01/c_135404466.htm).

<sup>44</sup> See Article 23 (2) (ii) of the AIIB Articles of Association.

- Other Asia States: 25%

Under this 75-25 formula, China would have absolute veto right. However, the joining of E-15 in the Western Europe and Scandinavian countries substantially changed the rules of the game. Prior to the participation of E-15, China took up 35% by GDP; while the distribution of shares by GDP was as follows: South Asia – 9%, Australia – 7%, Central Asia – 3%, Middle East – 12%, Africa – 1%, South America – 9%, Other European – 10%, South Asia – 9%, Northeast Asia – 5%. Since the Europe-15 take up 39% by GDP, China’s proportion by GDP becomes 22% and the allocation of shareholding structure and voting power completely changes.<sup>45</sup> Thus China adopted a leaner strategy with the veto –giving up the veto right in order to attract the participation of E-15.<sup>46</sup> It has been proved to be a wise decision showing a long-term strategy to mitigate concerns about whether the Bank would become a “tool of Chinese foreign policy”.<sup>47</sup>

In addition, under Article 28 of the AOA, the Super Majority voting rule requires “an affirmative vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total number of Governors”. The Special Majority voting rule requires “an affirmative vote of a majority of the total number of Governors, representing

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<sup>45</sup> Tang Siew Mun, *The Politics of the Asian Infrastructure Investment Bank (AIIB)*, Singapore: Institute of Southeast Asian Studies Publishing, 2015, pp. 12-13.

<sup>46</sup> Ibid

<sup>47</sup> Mark Magnier, “How China Plans to Run AIIB: Leaner, With Veto” (8 June 2015) *The Wall Street Journal*, available at: <http://www.wsj.com/articles/how-china-plans-to-run-aiib-leaner-with-veto-1433764079>.

not less than a majority of the total voting power of the members”.<sup>48</sup> As the largest shareholder of AIIB with 26% voting power, China has veto power over certain major issues that require three-fourths votes.

### **C. Organization and Management of the AIIB**

Under Chapter V – “Governance” –the organization of AIIB is composed of the Board of Governors, the Board of Directors, a President, Vice-President(s), and other officers and staff of the Bank.<sup>49</sup> Each member state shall appoint one governor and one alternative governor to composite the Board of Governors.<sup>50</sup> All power of the AIIB shall vest in the Board of Governors.<sup>51</sup> A majority of Governors representing not less than two-thirds of the total voting rights of the members shall be composed of a quorum for meetings of the Board of Governors.

The Board of Directors and the management (President, five Vice-Presidents, Officers, and Staff of the Bank) are responsible for the general operation of the Bank. Of the 12 seats for the Board of Directors, 9 seats are for regional members, and 3 seats are for non-regional members.

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<sup>48</sup> Lingling Wei and Bob Davis, “How China Won Support for Its Development Bank: Giving up Veto Power” (24 March 2015) Wall Street Journal, available at: <http://www.wsj.com/articles/china-forgoes-veto-power-at-new-bank-to-win-key-european-nations-support-1427131055>.

<sup>49</sup> See Article 28 of AOA

<sup>50</sup> See Article 21 of AOA

<sup>51</sup> See Article 22 of AOA



#### **D. Issues on AIIB's Governance and Transparency**

The AIIB expects to build its operations upon the lessons and experience of other Multilateral Development Banks (MDBs) and defines its modus operandi as “lean, clean, and green”.<sup>52</sup> However, there are voices that keep challenging governance issues such as procurement and anti-corruption, labour, and environmental protection.<sup>53</sup>

Facing concerns of governance and transparency from member states and other countries, AIIB made response to set up a special compliance-and-integrity unit to oversee the management and report to the Board directly.<sup>54</sup> Additionally, the AIIB President promised to implement the division of power and responsibility between the management and the Board.<sup>55</sup>

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<sup>52</sup> See Article 23 of AOA

<sup>53</sup> According to the AIIB, “lean” means “with a small efficient management team and highly skilled staff”; “clean” means “an ethical organization with zero tolerance for corruption”; “green” means “an institution built on respect for the environment”. Refer to AIIB, <http://www.aiib.org/html/aboutus/introduction/aiib/?show=0>

<sup>54</sup> Mark Magnier, “AIIB Tests Beijing’s Management Style: China faces task of leading complex multilateral organization under global spotlight” (28 June 2015) Wall Street Journal, available at: <http://www.wsj.com/articles/aiib-tests-beijings-management-style-1435516224?tesla=y>.

<sup>55</sup> “China-led AIIB sets up unit to oversee ‘integrity’: Asian Infrastructure Investment Bank president promises division of power and responsibility” (17 January 2016) South China Morning Post, available at: <http://www.scmp.com/news/china/policies-politics/article/1902183/china-led-aiib-sets-unit-oversee-integrity>.

### **III. AIIB's Finance**

According to its purpose and functions, AIIB shall promote both public and private investment for development purpose.<sup>56</sup> AIIB's key financial instruments include: direct loans, investment in equities, guarantee loans for economic development, special funds resources, or other types of financing determined by the Board of Governors.<sup>57</sup>

#### **A. Bankable Infrastructure Projects**

The Bankability of an infrastructure project is the key factor for project finance or Public-Private Partnership. One of the central issues on the first AIIB annual meeting is finding bankable projects. Armed with sufficient funds and technology, AIIB's lending target in 2016 is US\$1.2 billion. The Board of Directors has approved loans of over US\$500 million.<sup>58</sup>

#### **B. Co-finance with Established MDBs**

Inspired by the ADB's "Finance++" Strategy,<sup>59</sup> AIIB seeks for co-financing with other MDBs and private capital to obtain leverage effects in its infrastructure investment. At

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<sup>56</sup> Ibid

<sup>57</sup> See Articles 1 and 2 of AOA

<sup>58</sup> Refer to the website of AIIB, [www.aiib.org](http://www.aiib.org).

<sup>59</sup> CCTV, "Experts, Officials Debate Bankable Projects at AIIB Annual Meeting" (27 June 2016), <http://english.cctv.com/2016/06/27/VIDEJariJDuPNlvVdRdW0Yqt160627.shtml>.

present, AIIB has nearly a dozen of co-financing projects to consider.<sup>60</sup> On June 24, the AIIB Board of Directors approved four projects, three of them are co-financing with the WB, ADB, and EBRD in Indonesia, Pakistan, and Tajikistan respectively.

Choosing co-financing with established MDBs is a practical approach at its early stage, as AIIB is currently restricted by the US\$20 billion paid-in capital each year in its first five years. Also, AIIB can learn from other MDBs' lending standards and expertise.<sup>61</sup>

### **C. Public-Private Partnership (PPP)**

As an increasingly popular financial approach, PPP is important for AIIB's project finance. AIIB plans to integrate sovereign wealth fund, pension fund, and private sectors into infrastructure investment. China has set up large-scale PPP pools for infrastructure projects. The railroad project in Indonesia, the Thai railroad project, Moscow metro project and Indian express railroad have involved in PPP financing.<sup>62</sup>

### **D. Collaborate with Sovereign-Wealth Fund - Silk Road Fund (SRF)**

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<sup>60</sup> In ADB's "finance++" strategy, the first "+" stands for "knowledge"; the second "+" stands for "leverage". See Yangpeng Zheng, "AIIB to Explore Cooperation to Finance New Investment Projects" (9 May 2016) *China Daily*, [http://usa.chinadaily.com.cn/epaper/2016-05/09/content\\_25161127.htm](http://usa.chinadaily.com.cn/epaper/2016-05/09/content_25161127.htm).

<sup>61</sup> "World Bank and AIIB Sign Joint Co-financing Agreement" (29 June 2016), <http://www.brettonwoodsproject.org/2016/06/world-bank-and-aiib-signs-joint-co-financing-agreement/>.

<sup>62</sup> "When PPP meets the 'One Belt One Road'" (19 April 2016), <http://www.chinep.org/newsss/show.php?itemid=306>.

Both the AIIB and SRF are key financial instruments for China's OBOR Initiative. The Silk Road Fund was founded in December 2014 in Beijing as a government backed investment fund to facilitate the New Silk Road Economic Belt and the 21st Century Maritime Silk Road. The Chinese government contributes US\$40 billion to set up this sovereign-wealth fund. The SRF is capitalized by the State Administration of Foreign Exchange (with 65% stake), China Investment Corporation (with 15% stake), the Export-Import Bank of China (with 15% stake), and China Development Bank (with 5% stake).<sup>63</sup> Additionally, other financial institutes can contribute to SRF projects through equity and debt financing. The SRF's first overseas project was in Pakistan in April 2015.<sup>64</sup>

### **E. Special Funds**

Under the AOA, AIIB may raise funds or accept funds in line with its purpose and the Bank's functions.<sup>65</sup> On June 24, 2016, AIIB Board of Directors decided to establish a Project Preparation Special Fund. On the second day, the newly established Fund received a contribution of US\$50 million from the Ministry of Finance. The objective of this Fund is to assist developing Asian countries in preparation for AIIB' project financing.<sup>66</sup> In other words, this special fund helps translate infrastructure demands into bankable projects.

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<sup>63</sup> Yangpeng Zheng, "AIIB to Explore Cooperation to Finance New Investment Projects" (9 May 2016) *China Daily*, [http://usa.chinadaily.com.cn/epaper/2016-05/09/content\\_25161127.htm](http://usa.chinadaily.com.cn/epaper/2016-05/09/content_25161127.htm).

<sup>64</sup> The Silk Road Fund, <http://www.silkroadfund.com.cn/enweb/23775/23767/index.html>.

<sup>65</sup> Chen Jia, "China's \$40b Silk Road Fund Signs MoU with Russian Firms" (3 September 2015) *China Daily*, [http://www.chinadaily.com.cn/china/2015-09/03/content\\_21785297.htm](http://www.chinadaily.com.cn/china/2015-09/03/content_21785297.htm).

<sup>66</sup> Articles 16-17 of AOA

## **F. Partner with the NDB and SCO**

AIIB and NDB are peers in China's OBOR Initiative. In November 2015, the Research Report of Industrial Securities indicated that the establishment of Fortaleza BRICS currency system<sup>67</sup> and the BRICS Bank symbolized the launch of "Chinese Marshall Plan".<sup>68</sup>

The Shanghai Cooperation Organization (SCO) has a longer history. SCO is a political, economic, and military international organization among China, Russia, and four central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan). The SCO was founded in 2001 with headquarters in Shanghai. In June 2016, India and Pakistan joined the SCO as full members. In July 2001, the *Treaty of Good-Neighbourliness and Friendly Cooperation* was signed by China and Russia. By 2007, the SCO had engaged in more than twenty large-scale projects in areas of transportation, energy, and telecommunications.<sup>69</sup> The SCO originally developed in April 1997 from the Shanghai Five grouping under the Treaty on Reduction of Military Forces in Border Regions in Moscow between China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan. One of the Shanghai Five's objectives is

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<sup>67</sup> AIIB, "AIIB's Board of Directors Establish a Project Preparation Special Fund China Provides Initial \$50 Million Start-up Contribution" (25 June 2016), [http://www.aiib.org/html/2016/NEWS\\_0625/123.html](http://www.aiib.org/html/2016/NEWS_0625/123.html).

<sup>68</sup> The Fortaleza Declaration on the Sixth BRICS Summit announced to "simultaneously achieve growth, inclusiveness, protection and preservation".

<sup>69</sup> Research Report of the Industrial Securities, "Chinese Marshall Plan" (3 November 2014) *Net Ease Finance*, available at: [news.smm.cn/r/2014-11-03/3661445.html](http://news.smm.cn/r/2014-11-03/3661445.html).

to “ensure that liberal democracy could not gain ground in these countries”.<sup>70</sup> The SCO holds summits of the council annually.

In addition, AIIB may increase its capital through a few approaches: (a) issuing bond in capital markets; (b) bond transactions on inter-bank market; (c) borrowing or other financial instruments in member states or elsewhere.<sup>71</sup> According to Jiwei Lou, the Minister of Finance and Chairman of AIIB Council, AIIB pursues to explore innovative financial methods infrastructure development and connectivity in the region.

#### **IV. Interactions of AIIB with Other International Financial Institutions**

Although it seems the AIIB, at the first glance, appears to be a competitor or even rival to other MDB’s, especially the U.S.-led World Bank and the Japan-led ADB, the MDB’s have moved towards cooperation.

##### **A. AIIB and WB: “From Zero-Sum Competition to Win-Win Cooperation?”**

The World Bank Group (WB) was founded in July 1944. It is composed of the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). In 2010, developing countries obtained more voting rights in the

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<sup>70</sup> Wikipedia, “Shanghai Cooperation Organization”,  
[https://en.wikipedia.org/wiki/Shanghai\\_Cooperation\\_Organisation](https://en.wikipedia.org/wiki/Shanghai_Cooperation_Organisation).

<sup>71</sup> Ibid

“Voice Reform – Phase 2”. The proportion of voting power are as follows: United States (15.85%), Japan (6.84%), China (4.42%), Germany (4.00%), the United Kingdom (3.75%), France (3.75%), India (2.91%), Russia (2.77%), Saudi Arabia (2.77%), and Italy (2.64%).<sup>72</sup> China’s criticisms on the operation of WB are as follows: (a) Imbalance between demand and supply of loans; (b) Outstanding problems of debts of developing countries and of the least developed countries; (c) Exerting political influence on developing countries; (d) Dominated by the U.S.; (e) Not really reducing the gap between developed countries and developing countries.<sup>73</sup>

On April 13, 2016, the AIIB President Liqun Jin and the WB Group President Jim Yong Kim signed a Co-financing Framework Agreement. AIIB plans to co-finance a dozen projects with the World Bank this year.<sup>74</sup> Both the WB and AIIB get benefits from this co-financing project; that is, the WB will get more results with less money invested in this project, and this project portfolio helps AIIB get a better credit rating.<sup>75</sup>

## **B. ADB and AIIB**

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<sup>72</sup> AIIB, “FAQ”, [www.aiib.org](http://www.aiib.org)

<sup>73</sup> Wikipedia, [https://en.wikipedia.org/wiki/World\\_Bank](https://en.wikipedia.org/wiki/World_Bank)

<sup>74</sup> Tao Zhai, “The role and limitations of the World Bank” (January 2015) *International Financing*, pp. 20-22.

<sup>75</sup> Tom Mitchell and Jack Farchy, “China’s AIIB Seeks to Pave New Silk Road with First Projects” (19 April 2016) *The Financial Times*, available at: <http://www.ft.com/cms/s/2/a36af0d0-05fc-11e6-9b51-0fb5e65703ce.html#axzz4DPfYkN51>.

According to ADB's research result, the financial needs for infrastructure is US\$776 billion each year from 2010 to 2020 in Asia.<sup>76</sup> The ADB's 2015 Annual Report indicates that its total operations amounted to US\$27.17 billion in the year of 2015.<sup>77</sup> The financing gap is about 4.5 times of ADB's subscribed capital. Obviously, ADB cannot meet the financing demand of infrastructure alone. Regarding regional infrastructure demand, ADB has listed 1202 economically viable project from 2010 to 2020, which amounts to approximately US\$313 billion.<sup>78</sup> Based upon the huge financing demand, there should be large cooperative room for ADB and AIIB to work together. A positive action is that, in order to allow AIIB to participate in its projects, ADB recently revised its projects' terms, which restricts non-member countries from bidding.<sup>79</sup>

On May 2, 2016, the ADB President Takehiko Nakao and the AIIB President Liqun Jin signed a MOU on strengthening cooperation, jointly financing projects, and sustainable

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<sup>76</sup> Ibid

<sup>77</sup> Biswa Nath Bhattacharyay, "Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020" (September 2010) *Asian Development Bank Institute Working Paper No. 248*, available at: <http://www.adb.org/sites/default/files/publication/156103/adbi-wp248.pdf>.

<sup>78</sup> Source: Asian Development Bank, [www.adb.org](http://www.adb.org).

<sup>79</sup> Biswa Nath Bhattacharyay, "Estimating Demand for Infrastructure in Energy, Transport, Telecommunications, Water and Sanitation in Asia and the Pacific: 2010-2020" (September 2010) *Asian Development Bank Institute Working Paper No. 248*, available at: <http://www.adb.org/sites/default/files/publication/156103/adbi-wp248.pdf>.



development on the ADB's 49<sup>th</sup> Annual Meeting of the Board of Governors.<sup>80</sup> The first cooperated project is Pakistan's 64km M4 highway project. AIIB provides US\$100 million for this co-financing highway project in Pakistan and ADB plays a leading financier.<sup>81</sup>

With regard to the two Asian development banks, Mr. Takehiko Nakao, the ADB President, described the relationship between ADB and AIIB as "friends" rather than "rivals" in an interview:

"People want to depict ADB and AIIB as rivals and [AIIB president] Mr Jin [Liqun] and I [*sic*] as rivals. But actually we are friends, and ADB and AIIB can be partners," said Mr. Nakao. "We're already identifying projects for the first batch of AIIB loans. One of them should be co-financing between AIIB and ADB."<sup>82</sup>

### **C. AIIB's Cooperation with EBRD and EIB**

In January 2016, China became an European Bank for Reconstruction and Development (EBRD) member country. On May 11, 2016, the EBRD, and the AIIB signed a MOU on a framework for strategic and operational cooperation on the 25<sup>th</sup> EBRD Annual Meeting

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<sup>80</sup> Tom Mitchell and Jack Farchy, "China's AIIB Seeks to Pave New Silk Road with First Projects" (19 April 2016) *The Financial Times*, available at:

<http://www.ft.com/cms/s/2/a36af0d0-05fc-11e6-9b51-0fb5e65703ce.html#axzz4DPfYkN51>.

<sup>81</sup> Asian Development Bank, "ADB, AIIB Sign MOU to Strengthen Cooperation for Sustainable Growth" (2 May 2016), available at: <http://www.adb.org/news/adb-aiib-sign-mou-strengthen-cooperation-sustainable-growth>.

<sup>82</sup> "ADB Oks 1st Co-financing with China's AIIB for Pakistan Road" (10 June 2016) *USNEWS*, <http://www.usnews.com/news/business/articles/2016-06-10/adb-oks-1st-co-financing-with-chinas-aiib-for-pakistan-road>.

and Business in London.<sup>83</sup> Both parties will “exchange information on their respective policies and strategies” and “actively seek to co-finance investment operations in common countries of operation”.<sup>84</sup>

Soon after signing the MOU with EBRD, the AIIB and European Investment Bank (EIB) agreed to enlarge cooperation in strategic investments in important projects and seeking co-financing projects.<sup>85</sup> As the largest lender for climate related investment, there is large room for China and the EIB to strengthen their partnership on climate change and green bonds.<sup>86</sup> According to the EBRD on June 24, 2016, the EBRD and AIIB will provide US\$27.5 million each for the first co-investment motorway connecting Dushanbe,

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<sup>83</sup> Gabriel Wildau, “Japan and China-led development banks plan joint loan” (21 March 2016) *The Financial Times*, available at: <http://www.ft.com/cms/s/0/15ec1210-ef55-11e5-a609-e9f2438ee05b.html#axzz4DPfYkN51>.

<sup>84</sup> Anthony Williams, “EBRD to cooperate with Beijing-based Asian Infrastructure Investment Bank” (11 May 2016), available at: <http://www.ebrd.com/news/2016/ebrd-to-cooperate-with-beijingbased-asian-infrastructure-investment-bank.html>.

<sup>85</sup> “Memorandum of Understanding between the European Bank for Reconstruction and Development and the Asian Infrastructure Investment Bank” (10 May 2016), available at: <file:///C:/Users/LAWJINS/Downloads/2016-05-10%20Memorandum%20of%20Understanding%20AIIB.pdf>.

<sup>86</sup> Richard Willis, “EIB and Asian Infrastructure Investment Bank Agree to Strengthen Cooperation” (30 May 2016), available at: <http://www.eib.org/infocentre/press/releases/all/2016/2016-130-eib-and-asian-infrastructure-investment-bank-agree-to-strengthen-cooperation.htm>.

Tajikistan with Uzbekistan. The EBRD and AIIB are also expecting for other co-financing projects.<sup>87</sup>

#### **D. AIIB and the New Development Bank (NDB)**

The New Development Bank was founded in July 2014 by five emerging economies – China, Russia, India, Brazil, and South Africa for the purpose of investment in infrastructure and sustained development projects. To some extent, the emergence of BRICS Bank is to challenge the current international currency system. In China, the establishment of the New Development Bank is regarded as the launch of the OBOR Initiative.<sup>88</sup>

#### **E. Relations with other Multilateral Development Banks (MDBs)**

	<b>ADB</b>	<b>AIIB</b>	<b>EBRD</b>	<b>EIB</b>	<b>NDB</b>	<b>WB (IBRD)</b>
Founded Year	1966	2015	1991	1958	2015	1944
Headquarter	Manila	Beijing	London	Brussels (1958-68); Luxembourg	Shanghai	Washington D. C.
Objectives	Reduce poverty	Construction of Infrastructure	Support the former Eastern Bloc; Build market economies	Lending within EU; EU presence outside EU	Funding infrastructure in developing countries and sustainable development	Reduction of poverty and facilitating capital investment
Members	67 members	57 PFM members,	65 countries	28 member	5 BRICS Countries	188

<sup>87</sup> Ibid

<sup>88</sup> bne IntelliNews, “EBRD and AIIB to Provide \$55mn for Tajik Transit Road” (27 June 2016), <http://www.intellinews.com/ebrd-and-aiib-to-provide-55mn-for-tajik-transit-road-100676/>.

	<b>ADB</b>	<b>AIIB</b>	<b>EBRD</b>	<b>EIB</b>	<b>NDB</b>	<b>WB (IBRD)</b>
	including 48 regional members	including 20 non-regional members	and 2 EU institutions	states of the EU		
Subscribed Capital	US\$160 billion	US\$100 billion	€30 billion <sup>89</sup>	US\$232 billion	US\$100 billion	US\$283 billion
Subscription of Capital	Japan: 15.7% U.S.: 15.6% China: 6.5% India: 6.4% Australia: 5.8% (by the end of 2014 <sup>90</sup> )	China: 26% voting stake and 30.34% shares; <sup>91</sup> % of vote: India 7.51%; Russia 5.93% Germany: 4.15%; S. Korea 3.5% AU: 3.45% France 3.19% Brazil: 3.02% U.K. 2.91% Italy: 2.49%	G7: 57%; OECD: 84%. U.S.: 10%; Japan: 9%; Canada: 3%; EU 28 countries: 63%	Germany, France, Italy, U.K.: 16.1% each; shares based upon the member's economic weight (GDP) within the EU	20% for each member countries	Rank of Voting Power: 1-U.S. 2-Japan 3-China 4-Germany 5-France 6-U.K. 7-India 8-Saudi Arabia 9-Canada 10-Italy
Credit Rating <sup>92</sup>	Aaa /AAA; Outlook stable	N/A	AAA /Aaa /AAA with stable outlook	AAA /Aaa /AAA; Outlook stable	AAA by China Chengxin & China Lianhe <sup>93</sup>	Aaa; Outlook stable

<sup>89</sup> See the Research Report of Industrial Securities in November 2014, “Chinese Marshall Plan” (3 November 2014) Net Ease Finance, available at: [news.smm.cn/r/2014-11-03/3661445.html](http://news.smm.cn/r/2014-11-03/3661445.html).

<sup>90</sup> The authorized capital of EBRD is €30 billion. As of March 31, 2016, the subscribed capital of EBRD was €29.7 billion, including €6.2 billion paid-in capital and €23.5 billion callable capital.

<sup>91</sup> Ping He, “The Asian Development Bank Dominated by Japan: History, Current Situation and the Future” *Fudan University International Relations Forum*, Vol. 16, pp. 204-219.

<sup>92</sup> A “super majority” requires 75% of votes, as stipulated by Article 28 of the AOA.

<sup>93</sup> Except the New Development Bank and AIIB, the other credit rating of MDBs are rated by the Big Three - Moody's, S&P, Fitch.

## **V. Conclusion: An Alternative Development Finance?**

The emergence of AIIB, to some extent, is a challenge to the current international system of development lending. For one thing, China has to find a way out for its overcapacity, increasingly accumulated foreign reserves, and RMB internationalization, accompanying its economy slowing down after the continuous rapid growth in the past two or three decades. For another, it is the result of China's striving for breakthrough in changing the existing international financial order. It has been for a while since China has been dissatisfied with its relatively low shares and voting rights in the WB, IMF, MIGA, and IDA, compared with the weight of its GDP.<sup>94</sup>

On the other hand, the establishment of AIIB may promote traditional MDB's to reform the development finance and lending conditions. It is noted that AIIB, as an alternative multilateral development bank, stresses on regional connectivity, effectiveness, and a better understanding of the recipient developing countries. Mr. Liqun Jin believes connectivity, which bridges the gap between the local community and the outside world, is a new approach to facilitate the development of developing countries.<sup>95</sup> In particular, some Asian countries may consider AIIB as a more competitive lender because, according to the AIIB Chairman, unlike other MDB's such as the IBRD and EBRD, AIIB provides

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<sup>94</sup> China's GDP accounts for about 12% of the global GDP, while China's voting rights account for 3.81% in IMF, 1.72% in IFC, 5.42% in IBRD, 2.06% in IDA and 2.64% in MIGA.

<sup>95</sup> According to the Russian Finance Ministry, the New Development Bank plans to receive a credit rating from one the big three CRAs by the third quarter of 2016, <http://www.ndb.int/new-development-bank-to-receive-international-investment-rating-by-q3-2016-russias-finance-ministry.php>.

loans at commercial rates, which are free of conditions such as human rights and democracy.<sup>96</sup> It seems the AIIB tries to provide more favourable terms and conditions when competing with traditional MDBs such as EBRD and ADB.

The good news is AIIB seeks to co-finance infrastructure projects with WD, ADB, and EBRD. On account of the huge financing gap between the infrastructure demands and lending supply, as well as the credit and market risks of infrastructure investment, it is a natural tendency for MDB's, with an emerging development bank or established MDB's to cooperate on capital, technology, and financial leverage. It is likely that AIIB and traditional MDB's work out a more efficient and conclusive system of development finance. Then the outcome is a win-win: from the AIIB side, it can learn from other MDBs' lending standards and governance, and thus pave the ambitious new Silk Road; meanwhile the co-financing partner MDBs can save capital and get more results from this cooperation.

As a matter of fact, AIIB may certainly play as both a competitor and a compensator for some of the shortcomings of traditional MDB's such as the WD and the ADB. AIIB has repeatedly expressed its willingness to be a co-operator rather than a challenger to the existing international financial system. As a natural choice, AIIB appears to play the role of a compensator, at least at its early stage; this is a good strategy.

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<sup>96</sup> "AIIB Chairman Explains the Bank's New Approach to Lending" (27 October 2015), <https://larouchepac.com/20151027/aiib-chairman-explains-banks-new-approach-lending>.

## **ABBREVIATIONS**

ABM	Asian Bond Market
ACRAA	Association of Credit Rating Agencies in Asia
ADB	Asian Development Bank
AFDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AOA	Articles of Agreement
ASEAN	Association of Southeast Asian Nations
CAF	Development Bank of Latin America
CAREC	Central Asia Regional Economic Cooperation
CEE	Central and Eastern European
CIS	Commonwealth of Independent States
CRA	Credit Rating Agency
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
EU	European Union
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IDB	Islamic Development Bank
IMF	International Monetary Fund
MDB	Multilateral Development Bank

MIGA	Multilateral Investment Guarantee Agency
NDB	New Development Bank
OBOR	One Belt, One Road
OPEC	Organization of the Petroleum Exporting Countries
PFM	Prospective Founding Member
PPP	Public Private Partnership
RECCA	Regional Economic Cooperation Conference on Afghanistan
SAARC	South Asian Association for Regional Cooperation
SCO	Shanghai Cooperation Organization
TPP	Trans Pacific Partnership
UNDP	United Nations Development Programme
WB	World Bank