



**The Ministry of Education of Azerbaijan  
Republic**

**Getting involved in global financial governance:  
Asian Infrastructure Investment Bank as  
multilateral institution and vehicle of national  
economic interests**

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## **Abstract**

The new multilateral development bank AIIB has a main role to develop Asian countries. This thesis aims to demonstrate the potential role of the AIIB to support economic development of developing countries in Asia through its potential restrictions and challenges that might happen in its further development way. Thus, firstly the role of AIIB in global economic order, promoting financial governance and also China's motivation for the creation of the AIIB are provided. Secondly, according to the leadership of China in AIIB to cause creation of some political tensions from outside and some challenges that AIIB faces in providing sustainable infrastructure are showed. The last section estimates looking to AIIB prospects by analyzing whether the AIIB will continue to fill a market gap and also to further AIIB mode of integration to fill this gap.

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## **Introduction**

A striking fact about the recent global economic change is the emergence of development actors with alternative development experiences and development financing capacity. The main goal of new international organizations is contributing development of countries. One of the most essential new multilateral development bank is the Asian Infrastructure Investment Bank. The formation of the Asian Infrastructure Development Bank (AIIB) has drawn worldwide attention. China's leadership has created political tensions from the beginning and was viewed as a challenge to the Bretton Woods corporations such as the IMF and the World Bank. The creation of AIIB has been seen as a great event by other countries to enhance worldwide financial governance.

AIIB is an important part of the shift towards more South-South institutions in development financing architecture, and it is also important to include it in its membership of many advanced economies. This not only leads to positive lessons from the experience of the AIIB, but also to the prevention of mistakes they make and the likelihood of relying on the knowledge they obtain.

Given huge infrastructure investment necessities, Asia's developing countries have respected China's push to create AIIB. The US and Japan, be that as it may, have seen AIIB with alert and wariness and remained away. Without a doubt, both Washington and Tokyo have brought up issues about China's inspirations in creating AIIB, including the bank's capability to challenge the existing worldwide financial order, drove by the Bretton Woods organizations, where the United States and other G7 nations are prevailing investors. Japan additionally sees AIIB as a potential direct contender to ADB, which Tokyo leads as the biggest shareholder and the supplier of presidents.

Notwithstanding setting up AIIB, China has worked with different BRICS countries to establish a New Development Bank and a Contingent Reserve Arrangement. China

has likewise advanced the internationalization of its currency, the renminbi (RMB), and effectively pushed for the RMB's incorporation in the crate of monetary standards whereupon the estimation of the IMF's Special Drawing Rights (SDR) is based.

Since its foundation, the AIIB has created impressive verbal confrontations. From one perspective, its supporters stress that the AIIB will add greater ability to provide genuinely necessary capital assets to finance the immense infrastructure investment gap in Asia. Then again, its naysayers are for the most part worried about China's strength over the AIIB. They are stressed that China will utilize the AIIB to propel its own particular key interests overseas. In any case, the essential concern of this thesis is that it is still too soon to make a judgment to call about the AIIB. There has not been any noteworthy proof showing that it is a China-driven organization. In any case, if the AIIB as a youthful foundation endeavors to win more extensive help, it can't overlook worries that have been raised up and needs to address those issues straightforwardly. Also, it must deal with its apparent association with China as well.

## **Chapter1: AIIB contribution to regional economic growth in Asia**

### **1.1 AIIB as newly-established mechanism in Global Economic Order**

The global landscape has experienced significant changes since the finish of second World War. After the worldwide financial crisis, the global economy confronted huge difficulties. Tragically, the global governance system hasn't kept pace with the scale and complexity of these difficulties.

The global economic order is so old. The old global economic was designed by USA. The International Monetary Fund (IMF), the World Bank, and General Agreement on Tariffs and Trade (GATT) were created for the old global economic order to maintain stability, and international trade and capital flows gradually started to continue. In the 1970s, nevertheless, U.S. dominance began to go down, as a host of developing nations emerging from the postwar National Liberation Movement gathered to the United Nations, pressing for a so-named New International Economic Order that would be more in support in Third World countries. Additionally, the decay of the Bretton Woods system in 1973 implied that the United States had to depend more on economic policy coordination mechanisms with different developed countries to keep up the international monetary order. After Asia financial crisis, the outbreak of the 2007 subprime mortgage crisis in the United States and the 2010 sovereign debt crisis in Europe altered belief that developed countries are protected from financial crisis. The worldwide economic structure has already become incapable dealing with treatment of crisis. Then this development can be seen in strengthening of BRICS, establishment of AIIB.

In spite of these challenges, the design of world economy system remains unchanged. To reform the world economic system should be focus on some main issues:

First of all the United States lost its superpower status because of declining in U.S. gross domestic product (GDP) which was in the lead until 2003. According to the statistics, number of the United States GDP had dropped from 30,6 percent of world's

total to 24,3 percent in the between 2000 and 2015.<sup>1</sup> The U.S. share of international trade and investment had went down significantly. The U.S is no longer capable of leading global economic growth. It has other main concerns such as rising unemployment.

Second, the rise of emerging powers was required design of new worldwide economic order. According to IMF estimates, BRICS countries' share of world GDP has increased from 19,3 percent to more than 30,8 percent, while share of G7 has decreased from 43,435 percent to 31,5 percent of the world's total.<sup>2</sup> Over the recent years, developing nations have become a new driving force in the world economy. Moreover, developing countries have played a crucial role in important global institutions. Tragically, developing countries have still not achieved the status or voice commensurate to their power and the momentum of their economic development in the worldwide economic system.

As the United States dominance in the global economy is predicted to diminish further now that China will turn into the world's biggest economy by 2024, developing countries grow and the new issues are aged, the worldwide economic order enters an apparently divided stage. As a matter of fact, the Asian Infrastructure Investment Bank (AIIB) and Belt and Road Initiative are probably going to reshape the economic geography in the influenced areas and therefore apply an impact on the worldwide economic landscape.

Multilateral development banks (MDBs) have played essential role in assisting economic development and reducing poverty since establishment of World Bank. The main purpose of MDBs is to provide developing countries with public lending. MDBs have some advantages compared with national development banks. First, these banks can increase capital cheaply and easily because of supporting by sovereign governments. Second, these banks can bear to make long-lasting

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<sup>1</sup>World Bank, "GDP (current US\$)," 2017, <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD>.

<sup>2</sup> International Monetary Fund, Report for Selected Country Groups and Subjects: Major Advanced Economies (G7)



investments. Third, MDBs have strong technical capacity, experience, knowledge which make them better to deal with infrastructure funding gap in developing countries.

MDBs have emerged in three waves. The first wave continued from 1950s to 1970s which members of WBG such as International Finance Corporation and the International Development Association were created. Besides, Inter-American Development Bank (IDB), the African Development Bank (AfDB), the Asian Development Bank (ADB), the Andean Development Corporation (CAF), and the Islamic Development Bank (IsDB) were created in this wave. Most of them are similar in their operations.

The second wave of MDBs happened from 1990s to 2000s. In this wave European Bank of Reconstruction and Development (EBRD) was founded to contribute promote economy in post-communist countries the expansion of the European Investment Bank to facilitate European integration.

The establishment of NDB and AIIB is third wave of MDBs. These new MDBs have arisen during a period of power shift in the international system from industrialized governments to emerging economies.

In October 2013, Chinese President Xi Jinping reported the formation of another multilateral development bank, the Asian Infrastructure Investment Bank (AIIB), to “advance interconnectivity and economic integration in the territory”, “provide investment for infrastructure projects” and “collaborate with current multilateral development institutions,” such as the World Bank and the Asian Development Bank. The new bank would besides cooperate with current multilateral development banks and take full favorable position of their strengths in advancing economic development in the Asian region. Not long after Xi declared his proposal at the APEC summit, the process of creating the AIIB accelerated significantly. The Chinese Ministry of Finance set up multilateral talking groups, consisting of representatives

from Asian governments. Shortly after, the Chinese government arranged a series of negotiations with Asian governments tending to the development of the AIIB. These discussions culminated in a memorandum of comprehension, signed by China and twenty other states on 24 October 2014. In the months that followed, a scope of other governments pronounced an enthusiasm to join the new bank, including some European governments. The day of 31 March 2015 was chosen as a deadline for becoming a founding member. The UK joined the bank on 12 March 2014, which activated different European countries to be connected as well in the weeks before the deadline. Finally 57 states became founding members of the AIIB. Negotiations on the Articles of Agreement (AoA) occurred and were finished on 29 June 2015, when all the 57 governments signed the final agreement.

Besides the fact this agreement has made infrastructure sector a focus of attention and agreement required that regional members were given 75 percent of the voting shares, compared to 25 percent of non-territorial members.<sup>3</sup> The dispersion of voting shares shows the particular regional composition and focus of the bank. China is the biggest shareholder and owns accounting for 26,6 percent of the voting shares. In this way China holds a de-facto veto, because all significant decisions about the institution's governance procedures, financial position of the bank and decisions on special investments excluding direct loans and investments in equity funds, require a 75 percent approval of the voting shares. Beyond voting arrangements, the dominant role of China is moreover reflected in the AIIB's governance structure. The Former vice-president of the Asian Development Bank (ADB), Ji Lin Qin, a Chinese national, was assigned as secretary-general of the AIIB. Despite the fact the Board of Directors will decide budgets and project, President Ji Lin Qin has extra slack to detail the AIIB's strategies, because the Board of Directors will not be residential and the function is unpaid. The Board of Governors and Board of Directors, comprises of 9 regional and three non-territorial directors separately. Absolutely, this structure supports certain

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<sup>3</sup> Wan, M. (2016). *The Asian Infrastructure Investment Bank: The Construction of Power and the Struggle for the East Asian International Order*.

control measures and balances against the Chinese authorities of the Executive Board; However, an unpaid and non-resident element of an institution in practice will mean a limited daily review of the stakeholders of AIIB transactions, which can weaken the position of shareholders, for example, in case of loan approval. In addition, the president can directly approve loans in the amount of 300 million dollars (public sector) and 200 million dollars (private sector) without the need for consultation with management. These arrangements amount to a concentration of power at the bank's management, the Presidency of the AIIB, which is currently governed by a Chinese official. The equipment of the Presidency with such far-reaching discretionary powers is unique in so far as, the Board of Directors in other MDBs is usually highly politicized, allowing to block a loan approval. The rationale that has been given for the empowerment of the Presidency has been that the AIIB would strive to downplay bureaucracy and take decisions faster, compared to the already existing MDBs. The non-residentiality of the Board of Directors has also been defended in terms of saving expenditure for field offices and staff .AIIB has been seen as a competitor to the Bretton Woods financial corporations, in other words IMF and World Bank (WB).

Why China established the Asian Infrastructure Investment Bank is the critical question. There are some reasons for creation of AIIB.

First, China has highlighted financial shortages for the development of infrastructure in Asia as the main motivation for the establishment of the AIIB. China has gathered data from the World Bank and the Asian Development Bank (ADB) to support the need for infrastructure in the region. The World Bank estimates a \$1 trillion infrastructure deficit in low- and middle-income countries, and suggests that the demand for infrastructure will continue to grow as countries develop.<sup>4</sup>In 2009, according to ADB's Asia-specific report for 2010-2020, Asia needs to make invest \$8 trillion in the sustainable infrastructure and \$ 290 billion in additional investments

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<sup>4</sup> "World Bank Infrastructure Overview," The World Bank

in regional infrastructure projects in the area of transportation and energy.<sup>5</sup> Indeed, AIIB will provide infrastructure projects with investments.

The top 10 Asian countries for Infrastructure Investment necessities in 2010-2020 are shown in the table:

**Total National Infrastructure Investment needs in Asia 2010-2020 (Top 10 countries, US \$ billion dollars)**

Countries	US dollars
PRC	4368
India	2172
Indonesia	450
Malaysia	188
Pakistan	179
Thailand	173
Bangladesh	145
Philippines	127
Vietnam	110
Kazakhstan	70

Sources: Infrastructure for Seamless Asia. ADB(2009) and Stone (2008); The Global Competitiveness Report 2011-2012, World Economic Forum.

Second, ‘One Belt, One Road’ is one of Xi 's most important strategic initiatives since 2013. Focusing on trade promotion, infrastructure improvement and regional connectivity, China designed the new Silk Road Economic Belt to link the country with Central Asia, the Middle East and Europe, and the Century Maritime Silk Road to keep up China with Southeast Asia and, later, Europe and Africa via the Indian Ocean. One Belt, One Road, is seen as an upgraded version of China's "opening- up" policy, with key projects focusing on China's national and regional transport, energy and telecommunications infrastructure. Xi obviously trusts that AIIB will assist in the execution of the One Belt, One Road strategy. Soon after AIIB was signed, he stated,

<sup>5</sup> “Infrastructure for a Seamless Asia,” Asian Development Bank Report, August 31, 2009

“China’s origin and joint foundation of the AIIB with some countries is having aim at providing financial support for sustainable infrastructure in countries along the ‘One Belt, One Road’ and advancing economic collaboration.”

Third, China's analysis displays that AIIB closely coincides with China's economic priorities in addressing the excess capacity problem and using the country's developing foreign exchange reserves. Since 2008, the series of tremendous government incentive packages has grown, but also has created excess capacity - initially expanded towards steel and construction, recently to photovoltaics, wind energy and other sectors. The Xi administration has given priority to foreign demand stimulation as a means of absorbing excess capacity because of the gradual improvement of exports to developed countries and given limits on domestic demand. On the other side, China’s huge and growing foreign reserves – the world’s biggest at the end of 2014 at \$3.84 trillion – are another concern for Beijing.<sup>6</sup> After a long-standing discussion, a general unanimity has risen in China that the country should diversify its investment portfolio beyond U.S. securities and other dollar assets. The combination of excess capacity and capital led to the creation of what is called a “Chinese Marshall Plan.” This plan considers vast -scale capital investment in the infrastructure of emerging economies along the One Belt, One Road, in this manner turning foreign reserves into practical assets, while a developing Asian infrastructure market absorbs export excess capacity. The plan would be an added benefit of opening jobs for Chinese laborers.

Fourth, China is aiming to reform the current international financial system in order to meet its own expanding economic power and impact. Many Chinese believe that the Bretton Woods corporations – the World Bank, International Monetary Fund (IMF) and ADB – which are led by the West under leadership of U.S. , unfairly disadvantage China in the worldwide economic structure. While China has supported (and keeps up that it will continue to support) the current system, Chinese leaders

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<sup>6</sup> “2014 Financial Statistics Report,” The People’s Bank of China, January 15, 2015

have been especially frustrated by the current multilateral financial institutions' governance structures, which have not developed to reflect the new distribution of power in the global economy. With the gross domestic product (GDP) of \$ 10 trillion in 2014, China's economy is expected to surpass the US in the next decade and be the world's largest. Nevertheless China's voice in multilateral financial institutions has not kept pace with the country's economic stature.<sup>7</sup> The United States holds 16.75% of the votes in the IMF, while China holds only 3.81%. As a Financial Times article clarifies, the IMF's "quota system, which figures out what each country pays in and what number of votes they are given, fails to reflect the reality of a alteration world. The BRICS countries, which make up in excess of a fifth of global output, have a quota of only 10.3%. European countries, by differentiate, are allotted 27.5% for 18% of output. To make a difficult situation even worse, the IMF presidency is saved for a European, while that of the World Bank every time goes to an American.

Fifth, China has created AIIB primarily based on economic worries, but strategic thinking has also played an essential role. Beyond China's targets of developing its regional and global status and reforming the international system, Chinese foreign policy officials hope that China's financial contribution toward regional infrastructure and economic development through AIIB will promptly assist and enhance China's overall relations with countries on its periphery.

Sixth, China, as the basis for the American "financial hegemony", which prevents the Chinese economy from expanding, sees the US dollar status as a major reserve currency in international trade and finance. The internationalization of the RMB is part of China's broader strategic aim of democratizing the global order, which requires, in part, a decline in the dollar's impact. Since 2009, China has effectively tried to internationalize the RMB, largely by establishing the so-called "dim sum bond market" and the Cross-Border Trade RMB Settlement Pilot Project, which

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<sup>7</sup> David Dollar, "The Creation of the Asian Infrastructure Investment Bank is the Right Move for the Global Economy," The New York Times, November 22, 2014

created reservoirs of offshore RMB liquidity. China believes AIIB will strengthen these efforts through expanded and diversified channels. Most important, infrastructure improvement financing by AIIB could promote the RMB as a traded currency, in this manner boosting its position.

The main aim of AIIB is to provide governmental loans and technical support to enhance infrastructure development on the Asian continent such as in sectors of energy and power, transportation and telecommunications, rural infrastructure and agricultural growth, water supply and sanitation, environmental preservation, urban improvement and logistics.<sup>8</sup>

The focus of Xi on regional integration issues is that the AIIB is designed to provide the hardware for Asian connectivity to go along with the software that is offered by ASEAN and free trade agreements. The poor infrastructure is now perceived as the greatest obstacle, along with the increasing harmonization of regulations and the steady decline of tariffs and non-tariff barriers. AIIB will help alleviate this problem by providing the necessary financing.

From this point of view, there is an obvious link between AIIB and the One Belt, One Road initiative. There is a reason the two were announced within a month of each other, which Xi acknowledged at the inaugural speech for the AIIB when stating, “China keep going to welcome AIIB and different international financial corporations to participate in the construction of the Silk Road Economic Belt and 21st Century Maritime Road.” It should not be forgotten that AIIB is not a Silk Road Fund because it is different in two important areas. Initially, AIIB is a multilateral organization that is funded and operated not only by Beijing. Secondly, AIIB is not only designed for OBOR projects .While many of the major infrastructure investments will certainly be linked to the vision of OBOR, AIIB will focus on energy production and telecommunications, as well as finance (and have already financed) other projects not related to OBOR. President of the bank Jin Liqun insisted upon this point in an

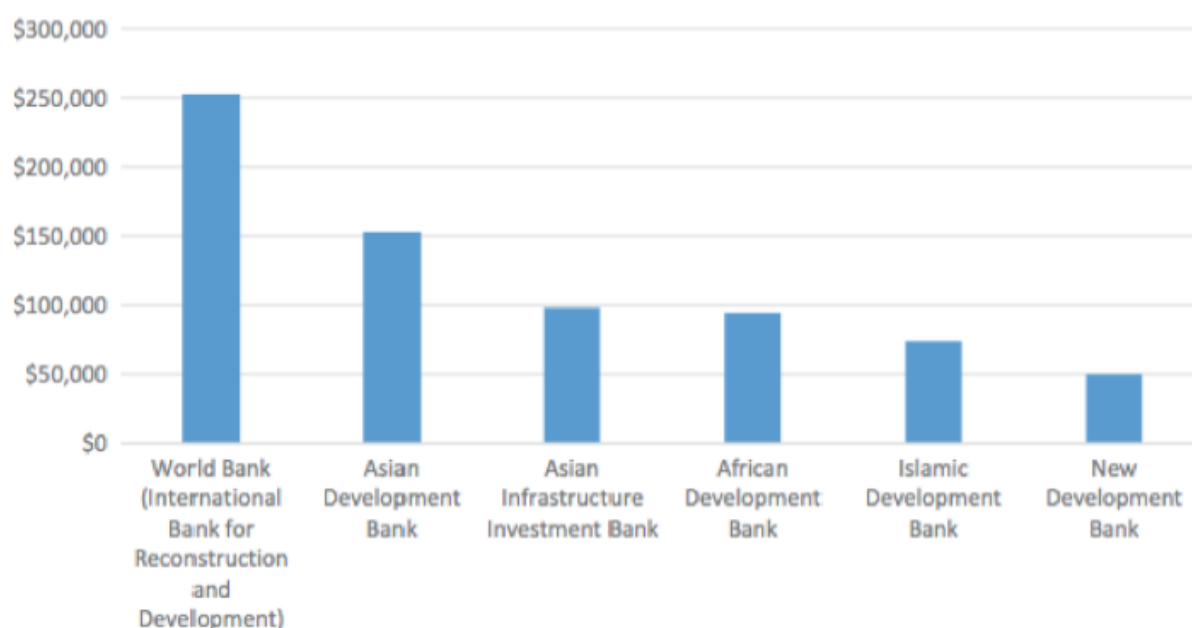
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<sup>8</sup>AIIB (2015). Asian Infrastructure Investment Bank: Articles of Agreement

interview with CCTV, stating, “AIIB is not a policy tool for Chinese government in its OBOR initiative. AIIB is an MDB that must serve the interests of all of its members... The bank will pay equal attention to other non-OBOR Asian nations’ projects.” Nevertheless, the link between AIIB and OBOR is both clear and important. The AIIB will serve as a multilateral bank to further the OBOR mission.

In 2014, China announced its intention to invest \$ 50 billion to AIIB. The general target was to reach a capital level of \$100 billion. This would make the AIIB a midlevel MDB, comparable to other great regional development banks.

**Graph 1: Multilateral Banks’ Subscribed Capital in USD Million (2015 Annual Reports)**



## 1.2 AIIB role in promoting financial governance

According to Daniel Bradlow, international financial governance should be two objectives. The first is to assist an international monetary system that is foreseeable and steady and that simplifies installments for global economic transactions. The second is to monitor an worldwide financial system that secures the interests of investors and designates credit resources effectively and fairly among every potential



borrower. The primary goal is to encourage beneficial and sustainable economic activity that serves the interests of all shareholders in the worldwide economic order.

The existing global financial governance structure is huge and confounded. Although dynamic changes and reforms have taken place, the Bretton Woods system, created after World War II, is still shaping the worldwide financial and economic order. The multinational organizations of the Bretton Woods such as the International Monetary Fund (IMF) and the World Bank lead the development lending and international financial regulations. The IMF, the World Bank and four small regional MDBs (ADB, African Development Bank, Inter-American Bank and European Bank for Reconstruction and Development) are the architects of the existing global financial governance.

After a great deal of time now, this global financial structure has been confronting a considerable measure of issues. The primary indications of the system having achieved a crossing came during the 1997 Asian Financial Crisis when a great deal of Asian nations protested to IMF interventions and played with the concept of creating an Asian Monetary Fund. Nonetheless, the issues continued and after the worldwide crisis in 2008, the need for reform became more apparent for a lot. China and other rising economies wanted to establish the new international financial governance structures which countries have undervalued quota shares in the IMF and the World Bank. But, these offers met strong resistance. According to the 2010 reform package the Bretton Woods corporations tried to propose a larger voting share to emerging economies but U.S. congress obstructed it. The troubles facing the existing global financial governance system additionally lay the groundwork for the creation of the AIIB.

Nevertheless, at this point, the influence of the AIIB on worldwide financial governance may be limited. The reason is that China is clearly positioning AIIB as a multilateral development bank, and its essential task is “to encourage sustainable

economic development, make wealth and develop infrastructure network in Asia region by investing in infrastructure and other profitable sectors.”

Infrastructure investment has a strong economic expansion effect. In accordance with Makmun, every \$1 infrastructure investment can increase investment in other economic fields between 3\$ and 4\$. Every \$1 billion investment in infrastructure can make approximately 18000 work opportunities. According to the ADB research, 10% growth in asphalt roads can be cause growth in economy by more than 5% and also 1% decrease in electric power transmission and distribution increases economic development by 1.1%<sup>9</sup>

The investment companies of developed countries invest mainly in the energy and manufacturing sector of the developing country, which ultimately leads to a shortage of funds. This tendency is contributing to the infrastructure gap that acts as a noteworthy bottleneck for developing countries to growth their competitive power.

Besides, after 2008-2009 global financial crisis lending capacity of global financial corporations has been affected. It has resulted in unmet loan. The World Bank estimates that the global financial corporations can't met this loan need.

While the AIIB has potential to pay \$2 billion in loans in its first year of operation and it will not be able to decrease this gap significantly, but it guarantees that it'll reduce this gap and finance infrastructure projects.

We previously noted that Asia countries need \$8.3 trillion infrastructure investment during 2010-2020. ADB researches also display that Southeast Asian countries need \$1.2 trillion infrastructure investment in this period.

In Southeast Asian countries the governments try to contribute to the infrastructure projects but their sources are limited. Thailand government estimated that it has 20 infrastructure projects costing approximately \$50 billion. At the same time Indonesia

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<sup>9</sup> Georg Inderst, “Infrastructure investment, private finance, and institutional investors: Asia from a global perspective”, ADBI Working Paper Series, No. 555, January 2016.

government has allocated \$23 billion for its infrastructure development. Likewise Vietnam noted in 2014 that it needs to invest \$500 billion for infrastructure development.

Current development banks cannot afford such a big claim. ADB operations are focused on tending to rising incomes and social inequalities, improving resource management, investing in innovation, and reacting to urgent support requests. For example, in 2013, in Southeast Asia ADB supported some major fields such as public sector management (50%), transportation (15%) and energy (10%).<sup>10</sup> ADB cannot fulfill infrastructure gap in Southeast Asia. As ADB President Nakao Takehiko said, ADB has only about 13 billion dollars for new loans each year.

The World Bank additionally recognizes that its assets for worldwide infrastructure are restricted. Its President Kim Yong Kim reported that the funding necessities in developing countries begun at \$1 trillion a year, and that this figure incredibly surpassed private-division speculation of about \$150 billion a year. Along these lines, China with its aggregate outside reserves of about \$3.4 trillion and aggregate outward FDI of \$120 billion out of 2015 has a conceivably huge part to play in fulfilling Southeast Asia's infrastructure areas.

Surely, China is trying to contribute abroad for more returns. As anticipated by the World Bank, by 2030, China's share in worldwide total investment will achieve 30% and will be rated globally for the first time. In addition, the infrastructure is one of the most competitive areas for Chinese companies. For instance, the costs of building high-speed rails are much lower than they are for different competitors; the unit cost is proportional to or even lower than some European competitors.

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<sup>10</sup> ADB Annual Report 2013, p.33.

### **1.3 Development bank attracting major powers worldwide**

AIIB was formally launched in Beijing, with 57 founding members, including 37 Asia countries and 20 non-regional countries. China, the biggest shareholder of AIIB, had its first membership of \$ 29.78 billion in authorized capital stock in the AIIB totaling \$ 100 billion, and donated \$ 50 million to the AIIB Project Preparation Special Fund. India is the second biggest stakeholder and contributes \$ 8.4 billion. Russia is the third biggest shareholder, investing \$ 6.5 billion, and Germany is the fourth biggest shareholder (also first biggest non-regional shareholder), investing \$4.5 billion.

The prioritization of the property of the Asian member of AIIB does not mean that the investment of the AIIB is limited just to Asia. According to the AOA, AIIB aims to "enhance infrastructure connectivity in Asia" and will invest in Asia and beyond as long as the investment is "related to the economic growth of the region". In addition, the investment areas of the AIIB are not limited with infrastructure but additionally incorporate "other gainful sectors".<sup>11</sup>

AIIB has 84 approved members. AIIB is now bigger than other current MDBs. For instance, its membership has exceeded the ADB's age 51, consisting of a total of 67 members, 48 from Asia Pacific and 19 from outside. The membership is also greater than the Islamic Development Bank, which has 57 members in the meantime, and the Inter-American Development Bank, which has 48 members in the present phase. But still, the membership of AIIB is much smaller than that of the 188-member World Bank.

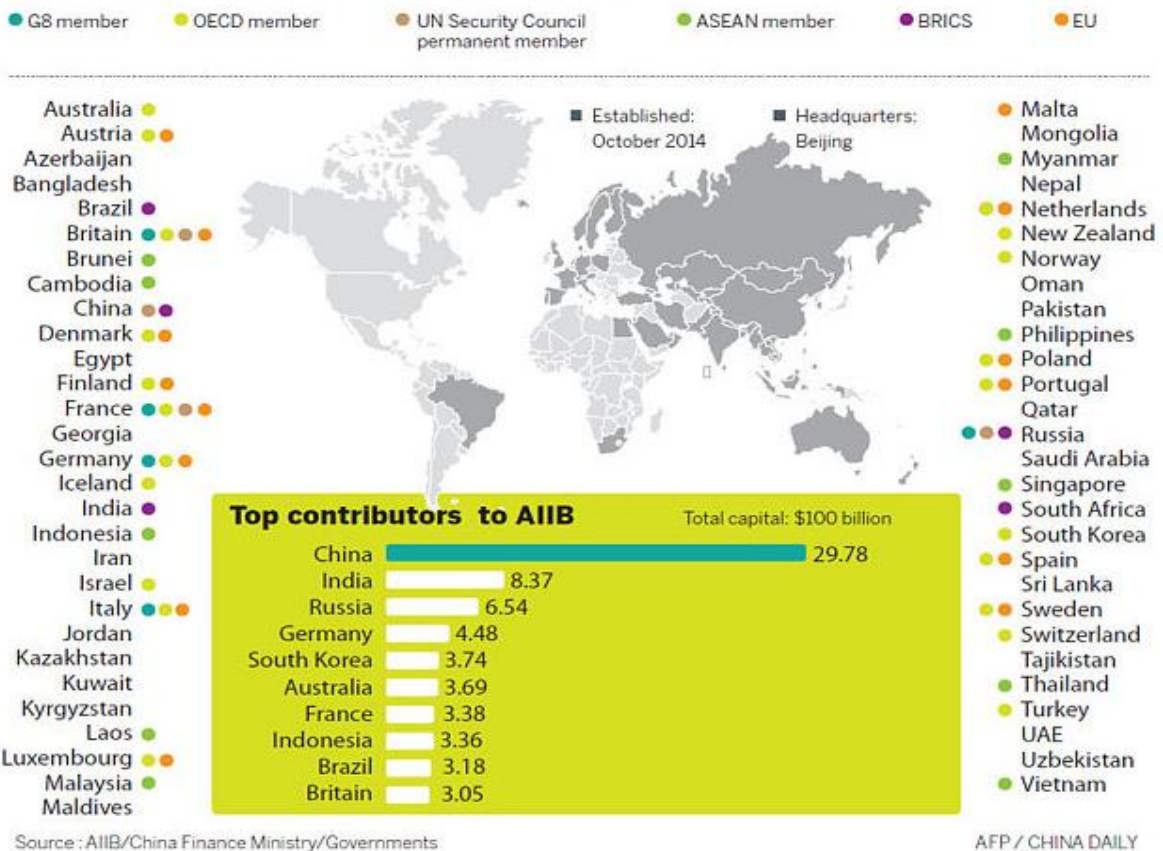
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<sup>11</sup>AIIB (2015). Asian Infrastructure Investment Bank: Articles of Agreement

## AIIB 57 founding members

### Asian Infrastructure Investment Bank

57 founding members of the China-led multinational lender



The broad membership base of AIIB did not differ from ADB when it was first created in 1966. In fact, ADB first president Takeshi Watanabe supported the idea that ADB should include non-territorial countries. Likewise, a broader membership enables AIIB to have greater access to major worldwide capital markets, especially in developed capital markets. In addition, a broader membership subscription also grows the exchange of technical knowledge among developed and developing countries. AIIB attracts a lot of non-territorial developing governments, as well as plenty of EU / OECD countries. As to why AIIB receives broad support from developing countries, some reasons may vary between countries, but there are several common factors discussed by observers. First of all, developing nations see the AIIB's ability to obtain the loans they need to finance the infrastructure. Secondly, they view AIIB as a project under the leadership of China and hope to establish closer

relations, supporting China and the AIIB. The third pointed to a consensus that some of them did not have sufficient representation in multilateral international institutions among developing governments. Some noted that the West, as the first multilateral institution launched by a developing country, needs the forces that the AIIB should raise with its voices and visions in the world community.

## **Chapter 2: Turning point in national approach to multilateral framework for financial coordination**

### **2.1 China's economic rationale for AIIB creation**

The question of what is China's aim for establishing new global institutions has increased significantly. In this chapter, we look at China's leadership in the AIIB and argue that this reflects the uncertainty and ideology of a developing state that is not satisfied with the status quo of the worldwide economic order. As Lanteigne (2005) noted, China's focus on the emergence of global power is focused on joining the old MOD, as it is trying to gain status in the global system. Similarly, Zhao claims that China uses diplomacy and participation in international institutions in favor of a soft approach to combating US hegemony.<sup>12</sup> From this perspective, China is not trying to overthrow the current worldwide order, but instead uses international institutions to develop its sovereignty and strengthen the legitimacy of the local area. In addition, Zhao sees this as an extension of China's soft balancing approach to bipolar progression and the ideological changes of the US and the USSR during the Cold War.

Since the early 2000s, China has switched from a net recipient to a developing bilateral and multilateral donor. Many observers say that some recipients of Chinese aid includes countries rejected for aid by the US, Japan and European donors such as Cuba, Iran and Burma. China, as part of its efforts to be an important donor, has also

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<sup>12</sup> Zhao, S 2010, 'Adaption and Strategic Calculation: China's Participation in International Regimes and Institutions

increased its contributions to the former IOs, such as the World Bank. China's multilateral aid attempts included the AIIB bomb announcement in attempts to persuade the US to not join other Western donors.

It is not easy to create a new institution within the framework of the existing international system. To be effective and to show that it can be a successful institution, AIIB needs to find a great consensus around the world. When we look at the fact that AIIB today, it seems that this problem was reached at the first stages of life. AIIB receives improved or underdeveloped reviews from different countries, regional and non-regional. It has all the right functions that are a solid alternative to everyday models. However, many difficulties remain on the shoulders of China. China managed to launch the Bank and expand its membership beyond Asia. However, many observers will closely monitor the activities of the bank after the commencement of their work. China and other developing economies have been complaining for many years that many international organizations (ie, the World Bank) do not offer fair and equal rights to all of its members. Moreover, they are accused of working on slow and inefficient procedures, and ultimately the complaints are processed by long-standing requests for loans. China, supported by other BRICS countries, has been intensively working to reform and reform these corporations. At the same time, China said that it can offer the best world leadership style. China supports the idea of an international system that does not see supremacy in hegemony. In recent years, the United States has become the largest power in the world, and this has affected international institutions and the balancing of forces. China does not pursue hegemony; a system based on mutual respect, in which each country has the right to provide "fundamental interests".

"Now that China has launched the AIIB has the duty to demonstrate that this new institution is coherent with the ideas China has been expressing in the international system for years". In explaining the AIIB's management system, the innovative power of a non-resident Board of Directors was underlined. The board of directors of

the World Bank has a \$ 70 million annual fee. However, a resident Board of Directors is not only expensive, it also leads to more management layers, at the same time slowing procedures and creating a general inefficiency in Bank operations. Another difference in governance between the AIIB and the WB the ADB or the IMF is in the presidency.

"The fact that the president of the World Bank has always been an American, director of the IMF in Europe and governor of the ADB from Japan, sparked controversy, questions about the fairness and transparency of the selection process (merit against the candidate's nationality) and the impartiality of top management in carrying out their duties. "The appointed head of AIIB is now China Jin Linqun. However, many observers seem to reasonably consider the election of a Chinese president to be elected first president. After all, China is the backbone of the bank and its main shareholder.

The main challenge that China will face will be the use of its "de-facto" veto power. When analyzing the articles of the agreement, it was enlightened that some decisions should be taken by a majority vote. The highest majority of votes sets the threshold at 75%, which means that not only non-regional countries (which account for a maximum of 25% of the total number of shares) can not form a veto block, but it also means that China will have a strong influence on these decisions .The Chinese potential veto-force could scare many countries so that they did not join this institution. Especially the European countries might have been afraid of extreme influence from China. However, China's German ambassador, Michael Clauss, said veto-power would be against the interests of China, if at all possible. This is absolutely true. The aim of the AIIB is to show that a new path of the governing international organizations is possible. If China plays the same role U.S. plays in previous institutions, it will be China's great failure. The bank chief said that China is not dominating or politicizing the decisions and activities of the Bank. In this regard, the Minister of Foreign Affairs stressed that China's goal is to create an "open and



transparent bank", and "an important idea is to achieve common development." In addition, the creators of AIIB should ensure that the new bank adheres to strict principles of preventing corruption.

A few observers claim the AIIB's ideational establishment is implanted with the Chinese belief system that Asian governments ought to be exclusively in charge of the imperative choices that will influence the locale. Moreover, as Callaghan and Hubbard clarify "The AIIB is an imperative vehicle for conveying Xi Jinping's mark outside monetary arrangement—the 'Silk Road economic belt' also, the '21st century maritime Silk Road' (one belt, one road) activities." According to Mishra, the formation of the AIIB means that China is arranged to challenge the built up global order including the standards and practices of inheritance IOs. During the year 2013, while encouraging the creation of AIIB, President Xi Jinping voiced to other developing countries China's willingness to help lending and aid absent traditional political conditions and former IOs and western aid donors. In addition, "Finance Minister Lou Jiwei noted that AIIB will assist the world economic recovery, strengthen infrastructure structure in Asia region and help China's economic development. In short, AIIB has been included in China's general vision for its place in worldwide economic governance.

The AIIB's Articles of Agreement was drafted by many governments however despite the fact that different governments were personally included, China, as the essential funder and pioneer, had the best say in the institutional standards and legitimate system. Some may see China's inspiration for encouraging the making of the AIIB is a result of the Western-ruled inheritance IOs' inability to alter the voice of China and other rising forces. Undoubtedly, our audit of changes to voting partakes in the heritage IOs substantiates the declaration they have not given China the voice it merits. The readiness of numerous European nations to join the AIIB may likewise be an indicator that the American political order is being tested.

Even the United Kingdom turned into the initial G7 government to join the AIIB, denying US objections. Other American allies, including Germany, France and Italy, question the center of the former IOs against the will of the United States and some observers. However, America is not the closest confederate in Asia, joining Japan, and did not realize that AIIB is a prospective competitor to WB and ASDB. Some have been disturbed by AIIB's opposition to neoliberal principles, which are based on economic openness and market-oriented policies. According to this view, the establishment of China's AIIB is a potential problem for the norms and practices of former IOs such as WB. Despite this concern, the institutional framework of the AIIB is, of course, a typical traditional IO, except where the United States and Japan are not members.

Parallel to the old IOs, it also emerges in terms of the internal governance of the AIIB; for example, voting rights are at the center of the decision-making process and re-organize the relative importance and voice of the member states. Every member accepts a voting share in light of the comparative capital contribution. The resolution of the contribution of a state is obtained by evaluating the size of the national product. All members of the AIIB will also receive the base number. The base votes are used as a way of opting to avoid the institutional shareholder voting model in the majority of other shareholders. At present, 12 percent of total AIIB votes are allocated on an egalitarian basis as a basic vote. One viewpoint of the AIIB voting regulations not found in different IOs is to have 600 extra votes to the founding members.<sup>13</sup> As commonly reported, the span of China's first capital subscription resulted in China playing a vigorous veto to do a little more than 26 percent of total votes. According to Mishra "From now on, AIIB apparently mirrors an Asian face with China at the 'driver's seat'. This is unmistakably indicated the 'power of the purse' as three-fourths of the aggregate capital would originate from Asia". In the most vital types of decisions, the AIIB is using a double majority rule that requires

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<sup>13</sup> Callaghan, M & Hubbard P 2016, 'The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road', China Economic Journal, vol. 9, no. 2 pp. 116-139.

two-thirds of the member countries holding four-thirds of the votes to cross a blind spot. In summary, the voting procedures of AIIB do not match those of ADB and WB.

Other striking vote holders incorporate India, which is the second biggest investor with a 7.5 percent voting share. Russia is one of the biggest investor with 5.9 percent and South Korea fourth with 3.5 percent votes. In entirety, the AIIB's weighted voting framework is designed according to heritage MDBs except for the extra votes doled out to establishing individuals. In light of its interior administration alone, it is hard to close the AIIB separates from that point institutional plan of inheritance IOs. The essential distinction lays on which governments are individuals and variety in their impact over formal and casual basic leadership.

Consider that like different RDBs, enrollment in the AIIB isn't constrained to governments from Asia; nonetheless, as most different RDBs the AIIB's institutional outline give extra parts (and impact) for local individuals. For example, nine of the 12 situations on the Board of Directors are held by local individuals. Additionally paralleling different RDBs, individuals are bifurcated into territorial and non-local classifications. Non-regional governments assumed a part in the foundation of the AIIB by their investment in the different gatherings prompting its manifestations. Truth be told, 17 of the 57 establishing individuals are European. Starting at July 2016, territorial individuals held just shy of 80 percent of total votes and non-local individuals held around 20 percent. In vast part because of the reality the United States isn't a part, some may close the offer of votes is skewed in the support of territorial individuals. The AIIB, nonetheless, isn't novel in favoring local individuals. In the Inter-American Development Bank, for example, non-territorial individuals are constrained to just 16 percent of total votes. As voting shares should be related to part's share of capital membership in view of GDP, it shows up the AIIB has a hazy area for deciding voting shares as voting rates don't reflect worldwide offers of GDP. Eyewitnesses could address if this vagueness is a type of casual administration

affecting future basic leadership systems. As others have seen with regards to inheritance IOs, there is frequently a casual political edge inside which voting shares are controlled so as to accomplish a distributive, political goal. The truth will surface eventually whether the AIIB keeps on having a structure that takes into consideration casual practices that meet all the more capable part's favored political results.

Numerous approach producers and researchers have proposed that Chinese outside monetary strategy is testing the American overwhelmed worldwide existing conditions in the territory of improvement financing.<sup>14</sup> In this way, while the AIIB's Articles of Agreement stresses coordinated effort and collaboration with heritage IOs there are unmistakable and sometimes hyperbolic worries about regardless of whether the AIIB was made as a contrasting option to the AsDB and WB elevating a revisionist technique to challenge the worldwide monetary administration overwhelmed by the West. We propose there isn't sufficient proof to conclusively close whether the AIIB is a supporter or contender to the advancement practices and standards of heritage IOs. However one conclusion is clear, the formation of the AIIB brings up numerous focal issues about the fate of the heritage IOs and of the Western mastery of worldwide financial governance.

## **2.2 AIIB failures in managing sustainable infrastructure**

Given that ADB has been operating for several years, it can be argued that AIIB is not a specific project that was needed in the region. Nevertheless, the gap in infrastructure in Asia is realistic with Asian Development Bank, which in 2010-2020 putting the needs of the region at around 8 trillion US dollars. Fears are that the existence of a new bank, rather than having the desired positive effects, may in turn out to be harmful, by sharing resources. Thus, it is important to emphasize that AIIB works in conjunction with existing institutions. The President of the World Bank

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<sup>14</sup> Harpaz, MD 2016, 'China's Coherence in International Economic Governance', Journal of Chinese Political Science, vol. 21, pp. 123-147.

welcomed the establishment of the AIIB and a co-financed project between the AIIB and the World Bank will take place in the near future. Likewise, China is committed to working with the World Bank in the context of AIIB. It supported Jim Yong Kim's appointment as a World Bank President for a second term.

Regarding the current situation, AIIB seems to have reached the leading MDBs such as the ADB, the European Bank for Reconstruction and Development and the World Bank, but also followed individual projects. This may indicate that the bank is trying to prove itself as a success story. The bank is trying to get financing from these partners, even though the Western countries like the United Kingdom, Canada and France and regional partners have been successful in attracting attention. China, one of the founding members and the leader of the largest shareholder power, is the main financier of the bank that provides 30.34% of the capital. The remaining 70% of the capital is provided by the other members of AIIB. However, these members are less committed to its success than China. The question arises as to whether the bank is sustainable and which countries will pursue China in the absence of financial support. In the absence of any development, China New Development Bank and AIIB will have to undertake the costs and commitments to other existing institutions. Moreover, the stagnation of the Chinese economy will automatically lead to the failure of AIIB, as it lacks the financial capital to finance the development projects of the bank. However, it is too early to predict the failure of AIIB. Efforts should be aimed at expanding cooperation in the region and ensuring that projects within the framework of the AIIB comply with international norms, in particular environmental and labor standards. Although AIIB can provide funds to close the infrastructure gap in Asia, providing loans in the amount of 10-15 billion dollars, it still can not take into account the gap of \$ 8 trillion, which will require investments of \$ 747 billion per year. The G20 commitment to the SRS agenda and sustainable infrastructure means that it must strive to achieve these goals in the Asian region where, according to ADB

estimates, 1 billion people do not have access to electricity and more than 1.5 billion people do not have access to clean water and basic sanitation facilities.

In general, the extent that space for interest in the area is concerned, it would appear that there is a place for the speculation the AIIB can get the district. All things considered, the AIIB has not been invited by all G20 individuals, and specifically the US and Japan are worried about the degree to which the bank is only a methods for China to pick up strength in world governmental issues. Nonetheless, China has been hesitant to accept an influential position that difficulties US predominance and it is as yet adjusting its double position as a created nation and a creating nation. There are more indications of China working inside the present framework than there are of China restricting it. The AIIB is diverting itself towards working with associations with a convention of supporting advancement, for instance, the World Bank, yet in addition from China itself, who joined the World Trade Organization in 2001, and has attempted endeavors to reinforce participation and lift monetary development following the 2008 emergency, as can be seen at the G20 Summit in Hangzhou.

### **2.3 Challenges in transparency: adding complexity to international financial partnership**

Transparency is a basic standard for any open organization to maintain and is particularly vital in the region of universal improvement financing. Access to data makes it conceivable to assess how IFIs recognize and address human rights dangers related with the tasks that they back. Subjecting basic leadership procedures and task activities to open investigation can additionally reinforce oversight and responsibility by uncovering potential bad behavior and corruption.

AIIB has observed the association amongst transparency and responsibility in its Public Information Interim Policy (PIIP), distributed in January 2016 and anticipated that would be formally embraced at the forthcoming gathering. It is substantially less

clear how the PIIP will encourage the human rights due tirelessness that AIIB and its customers will be required to complete, notwithstanding, and the arrangement does little to empower stakeholder integration into the bank's basic leadership process.

There are numerous sound purposes behind the bank to be more transparent and comprehensive. Individuals and groups whose lives remain to be most influenced by framework advancement ventures require opportune access to data keeping in mind the end purpose to take an interest completely in choices about the reason, plan, and execution of those undertakings. Informed stakeholders commitment enable activities and strategies to profit by important outer info, builds the odds of recognizing and tending to issues at a beginning time and hence diminishes the likelihood that tasks will prompt unfavorable human rights impacts.

Past these utilitarian methods of reasoning for transparency, AIIB needs to embrace a data revelation approach that recognizes that intergovernmental associations like itself must at any rate regard the central human ideal to "look for, get, and confer data and thoughts," which is cherished in the Universal Declaration of Human Rights and systematized in the International Covenant on Civil and Political Rights (ICCPR) and different center human rights bargains, for example, the Convention on the Rights of the Child. As the greater part of the AIIB's 57 establishing individuals have endorsed no less than one of these bargains, these states should, in this way, guarantee the bank's strategies on public data disclosure make affirmative reference to one side to get to data and that those approaches are executed in ways that make that privilege a reality.

Public data exposure ought to envelop various key components: to be specific, a genuine assumption of disclosure, liberal programmed revelation administrators, a reasonable structure for preparing demands for data, restricted exemptions to disclosure, and a privilege of enticement to an autonomous body.

At show, the PIIP's assumption of exposure is undermined by a broad rundown of special cases and expansive yielding to secrecy claims made by related outsiders, for example, contracting states and partnerships. AIIB has distinguished whole classifications of data that are liable to secrecy claims, instead of recognizing a plainly and barely characterized set of open and private interests and evaluating on a case-by-case premise whether revelation of a specific snippet of data will make harm at least one of these interests.

Additionally, an approach intended to amplify straightforwardness should likewise think about whether the general population enthusiasm for getting to a snippet of data exceeds the mischief to a specific (and perhaps private) interest. In its present frame, the PIIP has no arrangement for any such "open intrigue supersede" and just discounts revelation for data that has been sorted as private under the arrangements of the strategy itself.

The strategies for asking for data are clearly being created, however keeping in mind the end purpose to offer impact to one side to get to data, AIIB must guarantee that every significant system are open, straightforward, brisk, and free or minimal effort. This incorporates strategies administering how to ask for data, how reactions are prepared, and what kind of notice is essential if there should arise an occurrence of refusal. What's more, to give full impact to one side to offer when solicitations to get to data are denied, the bank ought to take after the act of different IFIs and supplement the inside interests process as of now set out in the PIIP with a completely free interests body whose choices are authoritative on the two parties.

Amnesty International and other common society associations are additionally worried by insufficient open interview in the drafting and selection of the PIIP. This comes after the bank was scrutinized for the way it discreetly received its "Ecological and Social Framework" following a short six-week open interview period completed altogether in English and depending intensely on video gatherings that overlooked the necessities of groups without access to broadband Internet get to.



This last point is vital, in light of the fact that as the AIIB starts financing foundation extends in Asia (and some time or another past), it should accomplish more to encourage correspondence with venture influenced groups talking a variety of dialects and having fluctuating degrees of education and access to innovation. This will require noteworthy exertion and cost of assets to guarantee that key records are deciphered and accessible through channels other than sites and email.

The privilege of free ought to likewise reach out to bank gatherings, which give a critical chance to trade data about AIIB exercises. AIIB's first yearly gathering will just offer chose common society delegates the opportunity to tune in to a couple of hour and a half classes on a Sunday morning. One expectations that future AIIB gatherings will give space to more extensive and consistent commitment with an extensive variety of common society performers on an assortment of issues important to the bank's tasks and objectives. Such discussions should center around important issues, be comprehensive and offer chances to take part in obvious discourse on arrangements and ventures.

This may annoy some bank leaders, who seek to work more proficiently than different IFIs. In any case, the objective of effectiveness mustn't come to the detriment of the privilege of general society to get to data about and give contribution to advancement basic leadership that affects their human rights, including ecological assurance. Set up IFIs like the World Bank and ADB have battled over numerous years to enhance their own straightforwardness and commitment strategies under basic weight from common society. Their lesson to AIIB ought to be to act now to advance straightforwardness and commitment from the earliest starting point, since encounter indicates how troublesome it can be to change hierarchical culture and advance more prominent straightforwardness later on, after strategies and propensities wind up set inside an organization.

## **Chapter 3: AIIB towards developing a constructive response to unfair international financial cooperation**

### **3.1 Beneficial Asian values for world infrastructure network**

In perspective of the implicative significance of the idea of worldwide budgetary administration, it is important to have a target reassessment of the AIIB's effect on the current worldwide financial governance framework. The AIIB has characterized itself as a multilateral improvement financing establishment with the mission to encourage local monetary advancement by serving infrastructure investment. This self-acknowledgment highlight of the AIIB establishes that the AIIB and its biggest stakeholder, China, can't cause enormous impact over the more basic issues of worldwide financial governance, for example, global financial reconnaissance participation and the reform of the universal monetary framework, obviously, difficult the U.S. position in the global order. Subsequently, within a permissible time-frame, the AIIB can just have a somewhat constrained impact on the worldwide financial governance. The truism that the AIIB signals "the eastbound move of worldwide power" and other comparative remarks depend on an imaginary vision as opposed to an objective analysis. It is smarter to state that the AIIB is a settlement to the worldwide financial governance structure.

The AIIB accounts Asian infrastructure structure, which helps the financial improvement of the generally in reverse Asian governments. At present, numerous Asian nations are either at the underlying or speeding up phase of industrialization and urbanization. They have an extraordinary interest for the foundation of transportation, vitality, communication, etc. yet endure a serious deficiency of supply and are looked with the lack of development stores and the absence of innovation and experience. Asian Development Bank evaluates that the Asian locale has a financing hole as high as \$800 billion in infrastructure structure consistently from 2010 to

2020. In perspective of this, the power of the AIIB is supporting infrastructure structure in the Asian district and that development clearly has the impact of advancing the Asian economy.

A Chinese saying goes that you should manufacture the street first before getting rich. The foundation and the smooth task of the AIIB will be reciprocal to existing multilateral development banks, soothe the financing bottleneck looked by the Asian economies, accelerate the Asian framework development and drive the monetary improvement of the nations included, accordingly boosting Asian and even the worldwide monetary development.

The AIIB will profit the European developed countries like Britain, France, Germany and Italy by expanding the investment channel and extending outside exchange. In spite of the fact that the powerless European economy will be difficult to animate inside a brief timeframe, Europe does not lack funds. Presently, as a develop economy, Europe does not have another monetary development point and has a low rate of profitability. Europe is enthusiastically searching for an investment opportunity of exceptional yield on its capital around the world. Under the circumstance of the powerless recuperation of the world economy, as the most unique and high-potential locale on the planet, Asia is an essential motor of world monetary development and has a substantial interest for infrastructure investment specifically. Notwithstanding, the current global money related organizations, for example, IMF, the World Bank and the Asian Development Bank are neither willing nor ready to intensely put resources into Asian foundation development. In addition, their conditions for investment keeps the creating nations away. Thusly, by joining the AIIB — a rising multilateral development bank, European developed countries will unmistakably pick up benefits from their investment in the dynamic Asian district and manufacture a nearer financial and exchange relations with Asia, investigating new markets for European goods and service.

The AIIB is noteworthy to China. First, it extends foreign exchange and investment. The foundation of the AIIB will begin countless infrastructure structure programs. Chinese endeavors have a main position in the infrastructure investment and will increase huge open doors for improvement. Likewise, the AIIB's investment in Asian nations will advance infrastructure investment and interconnection and intercommunication. That will assist make a major Asian market, additionally discharge Asian financial improvement potential and fortify the monetary advancement of the countries inside the region. Consequently, the abroad interest for Chinese products will increment and China's financial and exchange relations with other Asian nations will move forward. The AIIB's investment will drive Chinese manufacturing norms to go worldwide, bring abroad orders for Chinese assembling and process excellent over the top limit. What's more, since the AIIB fills in as a universal organization, when it puts resources into its part nations, Chinese enterprises can show signs of improvement insurance for its local investment, accordingly diminishing the investment risk.

Secondly, the AIIB will goad the RMB internationalization. Presently, the level of RMB internationalization is a long way from enough and the AIIB can give the RMB a supportive worldwide stage. As the AIIB opens the business sectors of the important nations through financing, endeavors from all nations including China will development. In this procedure, the significant nations will acknowledge the RMB so as to encourage Chinese investment as Chinese enterprises can contribute straightforwardly in RMB. Furthermore, in spite of the fact that the AIIB mostly makes settlements in US dollars at its underlying stage, it might bit by bit swing to the RMB and the US dollar in the meantime later on. In any case, it ought to be noticed that a further RMB internationalization generally relies upon the possibility of Chinese monetary change and the pace of opening the budgetary market. At introduce, the RMB internationalization has got a few accomplishments, yet the US

dollar will in any case be the leading currency in the world for quite a while to come. The RMB internationalization still has far to go.

Third, the AIIB can help upgrade China's impact in setting the world economic and money related principles. By and by, the international financial corporations like IMF and the World Bank are altogether driven by the US; other developed countries and the US rule in setting the world economy and financial guidelines. Being the second-biggest economy, China's say in the world economy has not enhanced to coordinate its status. The foundation and activity of the AIIB can be helpful for reinforcing China's impact on the world economic governance; in the interim, China will additionally partake in setting the world economy and financial principles, making a superior situation for its financial advancement. In addition, as an international financial corporation the AIIB will shape a worldwide "three-pillars" budgetary example together with the IMF and the World Bank. The three pillars will have common collaboration, shared complementation and solid rivalry. This will be gainful to settling the world financial order and adequately prepare for economic and financial turmoil and dangers.

The Bank organizes regional investments. Consequently, keeping in mind the end purpose to meet the prerequisite of "significant benefits" to Asia, non-territorial investments are liable to extra Principles and a ceiling on such investments as an offer of aggregate Bank financing as depicted underneath. The Strategy offers three Principles for assurance of qualification of investments for Bank financing in non-territorial Members. Activities that are lined up with at least one of the three Principles underneath might be considered for conceivable Bank financing:

- the Bank may think about investments with the target to help exchange and connectivity with Asia region, including ports, transport joins, control age and transmission, and gas pipelines. This Principle is lined up with the AIIB topical need, cross-country connectivity. The larger part of non-regional financing is relied upon to fall under this Principle, and need will be given to projects

- meeting this Principle;
- the Bank may think about investments in worldwide public products, particularly sustainable energy generation projects (counting transmission and capacity). Investments under this Principle ought to be included in the country's National Determined Contributions as characterized in the Paris Agreement. This Principle is lined up with the AIIB topical priority, sustainable infrastructure; and
  - the Bank may take into consideration interests in non-territorial Members which the Board of Directors thinks are geographically close to and nearly economically coordinated with Asia. Egypt, a non-territorial Member having an area in the Asian region, meets this Principle.

The Principles above allude to advantages to Asia through the yields of a project. Infrastructure investments in non-territorial Members can likewise benefit the Region through the inputs sources gave by Asian providers, contractual workers, developers, or investors. Be that as it may, given the Bank's approach toward widespread obtainment and open selection of accomplices without nationality limitations, the Bank won't consider investment recommendations in non-territorial Members construct exclusively in light of financing, supplies, or different inputs being provided by Asian entities.

Ceiling on investment in non-territorial Members as an offer of aggregate affirmed Bank financing. With a specific end goal to save the Asian character of the institution and to guarantee adequate accessibility of financing for its regional Members, the Bank will determine in future Business Plans and watch a ceiling on its financing for activities in non-local Members communicated as a three-year moving offer of volume of affirmed Bank financing in non-regional Members amid current in addition to two earlier years over aggregate approved Bank financing in a similar period. Until the point when such ceiling is resolved in a future Bank Business Plan,

the ceiling on investment in non-territorial Members as an offer of total confirmed Bank financing is 15% beginning from 2018.

Principle 1: Investments with the target to help exchange and network with Asia, including ports, transport joins, power generation and transmission, and gas pipelines. Such investments in non-regional Members can produce significant benefits for the Region. For instance, Slovakia and Poland provided about USD1 billion worth of pipeline and power transmission services to Russia in 2010. Such investment recommendations might be considered if trade and network with Asia is one of its express targets which will be observed amid execution. This Principle is lined up with the AIIB topical priority, cross-country network. The greater part of non-regional financing is required to fall under this Principle, and priority will be given to projects assembly this Principle.

Principle 2: Investments in worldwide public products, particularly sustainable power generation projects (counting storage). Investments under this Principle ought to be contained in the nation's National Determined Contributions as characterized in the Paris Agreement (went into constrain October 5, 2016). Investments in sustainable power generation advantage the Region whether such investments are attempted in a regional or non-regional Member. Given that Asia has 60% of the total population and 45% of the worldwide economy, investment in sustainable power generation in any Member would produce significant benefits for Asia. Following the joint MDB Methodology for Tracking Climate Mitigation Finance, just investments in sustainable power generation and supporting infrastructure, (for example, storage or transmission for inexhaustible sources) would qualify under this Principle for the Bank's investments in non-regional Members. This Principle is lined up with the AIIB topical priority, sustainable infrastructure.

Principle3. Investments in non-territorial Members which the Board of Directors thinks are geographically close to and nearly financially coordinated with Asia. Egypt, a non-territorial Member having an area in the Asian region, meets this

Principle. Investments in Egypt can sensibly be expected to considerable benefit Asian neighbors through exchange, finance, and investment, and also through positive effects on local financial soundness. Egypt with its novel topographical area traversing Asian and African regions assumes a crucial part in international trade amongst Asia and the West. Egypt is the most crowded nation of the Arab World with critical overflow impacts to a few Asian nations. Egypt is a developing country that keeps up close financial ties with Asia regarding trade, migration and investments. It has a huge number of migrant laborers in various local Members, for example, Saudi Arabia, Kuwait and Bahrain. Investments into Egypt's infrastructure, including this infrastructure that elevates neighborhood living conditions, would enhance financial solidness and furthermore add to upgraded cross local economic flourishing. Given these, investments that propel the thriving of Egypt would be required to likewise contribute to Asia's improvement and to produce significant advantages for Asian nations.

As per the built up Principles, the Bank will utilize a similar financing instruments in non-territorial Members as with regional Members. This will incorporate sovereign and non-sovereign sponsored financing, equity investments, and assurances. Tasks in non-regional Members will be handled under similar arrangements, mandates, and direction as those connected to activities in regional Members. At this phase of the Bank's improvement, the essential focal point of staff and institutional limit lies in help to its regional Members. Thusly, financing activities in non-territorial Members would ordinarily be attempted together with, and under the lead of, an accomplice improvement finance institution.

### **3.2 Looking for further opportunities to increase AIIB financial engagement**

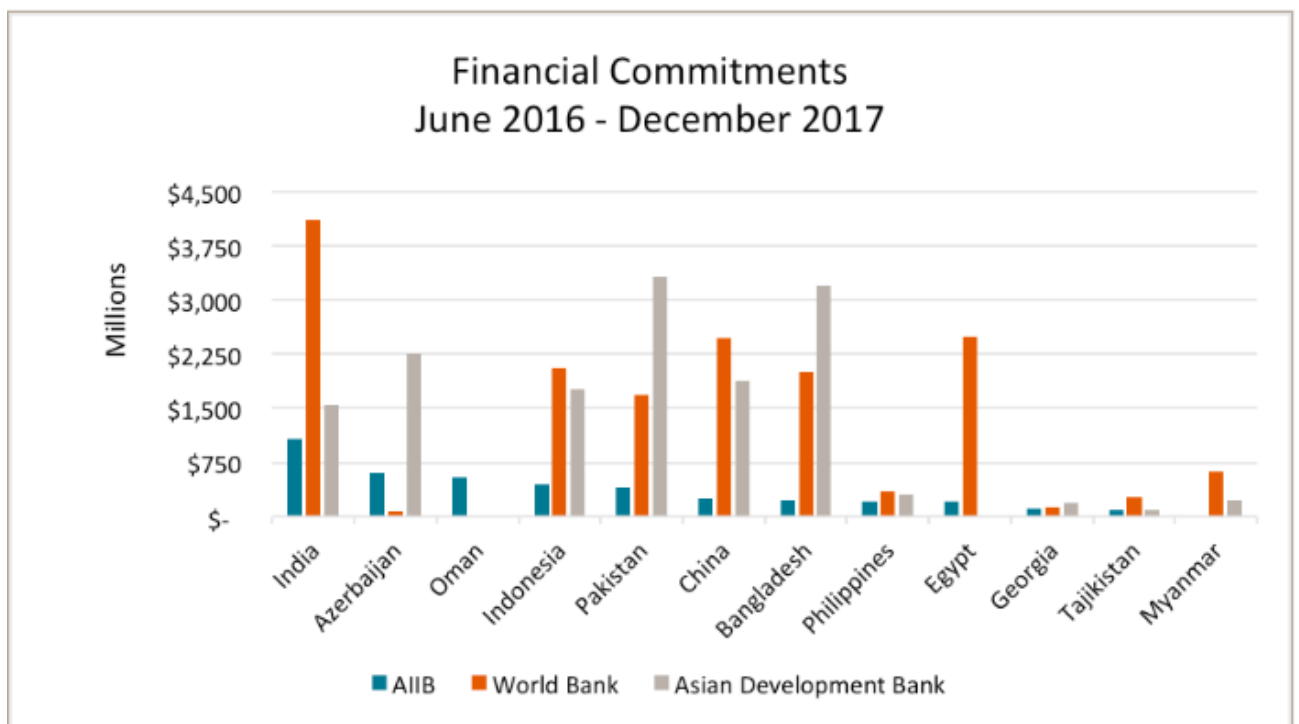
As indicated by the AIIB's articles, beneficiaries of AIIB financing may incorporate member countries (or agencies and enterprises in member countries), and also global



or territorial organizations worried about the economic improvement of the Asia-Pacific area.

Since it was built up, the AIIB has affirmed financial commitments totaling US\$4.3 billion to projects in 12 nations, with US\$150 million of that focused on a local infrastructure fund. Over a similar period in similar nations, the World Bank (IBRD and IDA) endorsed US\$16.3 billion in financing and the Asian Development Bank (ADB) US\$14.8 billion. Given that the AIIB centers exclusively on infrastructure financing, a more attractive examination may be to World Bank and ADB loans for infrastructure projects. The aggregate sum of World Bank/ADB framework advances was US\$16 billion, excluding the International Finance Corporation (IFC).

The accompanying diagram demonstrates the estimation of all financial commitments from every one of the three organizations for every one of the 12 nations since June 2016:



India has the most abnormal amount of AIIB financing, at simply finished US\$1 billion, however this is about one quarter of the amount of World Bank loaning (excluding the IFC). Azerbaijan is second with US\$600 million in financing, however

this is for only one project, the Trans Anatolian Natural Gas Pipeline. By differentiate, the Asian Development Bank endorsed a total of US\$2.25 billion in financing for six unique projects in Azerbaijan over the same period.

Of the 24 projects that have been endorsed by the AIIB board, 17 have been co-financed by another multilateral development bank. The World Bank Group (counting IFC) has conferred subsidizing for 11 AIIB financed projects, the Asian Development Bank five, and the EBRD and EIB two each. Of the seven projects that are not co-financed by another multilateral, three are in Oman, which does not obtain from any of the traditional MDBs. The diagram underneath demonstrates the aggregate estimation of AIIB financial duties for 2016 and 2017, the measure of financing from different sources, and the aggregate estimation of the projects financed.

Commitments for Projects			
	AIIB	Co-Financing	Total
2016	\$1,730.00	\$10,795.02	\$12,525.02
2017	\$2,577.63	\$6,436.17	\$9,013.80
Percent Change	49%	-40%	-28%

The co-financing model serves AIIB well, especially if different foundations, for example, the World Bank and Asian Development Bank, don't charge the AIIB every one of the costs they bring about for due perseverance and oversight. With minimal effort co-financing charges, the AIIB can make huge benefits since its own advance charges can without much of a stretch cover its low regulatory costs. Alternate organizations, with their full suite of defend approaches, likewise shield the AIIB from reputational dangers related with infrastructure projects.

As specified over, the AIIB has financed extends in Oman, a nation on the Arabian Peninsula with a for every capita pay well over the World Bank's graduation limit. Not at all like the World Bank, the AIIB has no graduation approach and is exhibiting an eagerness to finance infrastructure in any nation as long as the project meets the reasons for the bank, to be specific to cultivate sustainable economic improvement, make riches, enhance infrastructure connectivity, and advance local collaboration and partnership in Asia. In this sense, it works more as an unadulterated credit cooperative, similar to the European Investment Bank, than a traditional development institution.

This raises the possibility of financing for projects in two part countries that are at present outsiders in the traditional MDBs:

1. Russia. Neither the World Bank nor the EBRD have delivered forth a project for endorsement since the Russian military intervention in Ukraine. As one of the biggest economies on the planet, Russia has colossal infrastructure needs. Would China and other non-OECD individuals go forward over what might likely be the solid protests of the European investors?
2. Iran. The last World Bank credit to Iran—another expansive Asian economy with huge infrastructure needs—was endorsed in 2005. Absence of US support in the AIIB would seem to open the way to projects in Iran, however it is important that Israel and the Gulf Arabs are additionally AIIB members.

AIIB's approach additionally raises the possibility of a huge increment in lending to China itself. As said, the AIIB board affirmed financing for an undertaking in China this previous week. The US\$250 million credit will bolster endeavors to lessen coal use in the Beijing locale by associating more than 200,000 families to the naturalgas distribution network. Openings flourish for other infrastructure projects inside China, regardless of whether that be for contamination control or different needs, including the Belt and Road Initiative.

AIIB financing for projects in China may likewise be helped by the US administration's support for a more thorough use of nation graduation at the multilateral development banks, especially the World Bank. In his current declaration to Congress, Treasury Under Secretary for International Affairs David Malpass passed on worry that the World Bank is trying to keep up or increment its solid commitment with graduation-qualified countries, citing to China as an unmistakable example. As my partner Scott Morris called attention to in a current blog, if the United States is effective on World Bank nation graduation, at that point nations, for example, China could progressively swing to the AIIB, an institution drove by the Chinese and over which the United States has definitely no impact.

With US\$4 billion of undertakings in the portfolio and another US\$1.5-2 billion in the pipeline, the AIIB is well on its approach to turning into a flourishing member from the global financial community—and one that is probably going to be progressively called upon to meet the financing needs of developing and outskirts market economies. It is too early to state in the event that it will meet its objective of affirming US\$15 billion in financing in 2020, and much will rely upon world economic conditions and project particular conditions. Nonetheless, if current projections hold, and the traditional MDBs stay capital obliged, the AIIB should see a lot of interest for financing in the road ahead.

### **3.3 To further AIIB mode of integration addressing infrastructure financing needs**

As examined over, the China-drove AIIB, albeit mutually shaped with some developed countries, is basically in light of South-South collaboration. In Chan's view, "this sort of South-South collaboration, as opposed to the traditional model, is more in light of common advantages among the gatherings required, with infrastructure improvement as a primary driver of economic growth"... "It doesn't set

the sort of 'good governance' conditions, as do the World Bank and the IMF, which require help accepting countries to roll out major political and financial improvements to their governance system."<sup>15</sup>

While Felix K. Chang trusts that since this South-South participation can be believed to contend with OECD countries for the hearts and psyches of the general population in developing countries, "it is inescapable that it might encounter conflicts and rivalry with the current MDBs where its managing idea of South-South collaboration, help conditions and criteria are concerned". It might require some time for the two sides to accommodate strategies and priorities, and to create basic standards and achieve accord.

The AIIB and the ADB have in fact reported that they will cooperate to recognize open doors for co-financing, however with the ADB asserting the main part. "The ADB is the lead financing accomplice for the project and directs it for the benefit of alternate co-financiers," and it demands that "bidding might be completed as per ADB's acquisition rules and method."<sup>16</sup> The inquiry now is the means by which their disparities are to be resolved. The ADB may need the AIIB to receive its practices, however the last may have as a top priority a more adaptable approach.

Regardless, the AIIB is relied upon to confront extreme rivalry from the ADB in Southeast Asia. Geopolitically, Southeast Asia is vital to US and Japan, who together are the biggest wellspring of FDI for the district. For a long time now, Southeast Asia has been the lending target of the ADB. In 2013, the ABD's investment priorities were Southeast Asia, Central Asia and South Asia, and its loan sum for that year was US\$21 billion.

In 2009, ADB distributed a report entitled "Infrastructure for Seamless Asia", assessing that from 2010 to 2020, Asia would require US\$8.3 trillion in infrastructure

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<sup>15</sup> Gerald Chan, "China's High-speed Rail Diplomacy: Global Impacts and East Asian Responses", EAI Working Paper, February 2016

<sup>16</sup> Tome Mitchell, "China's AIIB seeks to pave new Silk Road with first projects", Financial Times, 19 April 2016

investments. The report sketched out a diagram for Asian infrastructure, covering expressways, railroads, airplane terminals, seaports, control plants, systems of correspondence and others. The ADB's essential thought is to additionally collaborate with the private part and extend its effectively settled limit and develop its engraving on Asia's infrastructure. Given the ADB's present dominance, the AIIB can't however undermine Japan's initiative in the region.

Japan has broadcasted another advancement program, "The Partnership for Quality Infrastructure", which it reported in May 2015 and which it has been elevating to Southeast Asian states. This program stresses joint effort amongst Japan and the ADB to advance "quality infrastructure investment" as a worldwide standard. Under this plan, Japan builds its infrastructure investment to \$110 billion for the following five years. It is trusted that this program is intended to balance the AIIB's impact, as "both Japan and the US were essentially worried about China's AIIB activity in view of its absence of transparency, low lending standards, and China's expanding impact being developed."

In the interim, the AIIB had before its establishing counseled with the ADB and the World Bank and had tried to assume a supplementary role to the current MDBs. On 13 April 2016, AIIB President Jin Liqun marked its first co-financing structure concurrence with World Bank President Jim Yong Kim in Washington. The two are currently talking about the likelihood of co-financing 12 projects, primarily identified with transportation, water and energy projects in Central Asia, South Asia and East Asia. On 2 May 2016, the AIIB President and ADB President Nakao Takehiko marked a collaboration memorandum in Frankfurt in which the two sides consented to reinforce participation in vitality, transport, media transmission and different parts of advancement.

On 24 June 2016, the leading group of AIIB affirmed \$509 million in investments for its initial four projects, three of which are co-financed with the World Bank, the ADB, the United Kingdom Department for International Development, and the

European Bank for Reconstruction and Development.<sup>17</sup> These projects concern control framework redesigns in Bangladesh, ghetto remodel in Indonesia and highway development in Pakistan and Tajikistan.

Notwithstanding, how such joint endeavors will be done further later on depends to a great extent on how the diverse entities can accommodate their needs, interests, and operational strategies, as they wander on principles and directions, for example, lending conditions, acquisition approach, and labor stands. ADB has made it clear that there will be no co-financing with the AIIB until the point when ADB shield strategies are acknowledged.

While thinking about the role of AIIB and its potential for rivalry and cooperation with ADB in Asia, some intriguing parallels might be attracted to the connection amongst IDB and CAF in Latin America.

The World Bank and IDB used to be the principle MDBs supporting economic development in Latin American and Caribbean countries. The five Andean Community countries of Bolivia, Colombia, Ecuador, Peru and Venezuela established CAF in 1970 with an underlying capital membership of \$25 million. Headquartered in Caracas, Venezuela, CAF's participation has increased to 18 countries in Latin America and the Caribbean, and also Spain and Portugal, alongside 14 private banks. Capital memberships have likewise developed to \$7.8 billion, with plans for an extra \$6.3 billion by next year. CAF's central goal is to animate manageable advancement and regional integration by financing projects in general society and private parts and by giving specialized help and other specific administrations.

CAF has seen a rapid growth of its credits to Andean countries, particularly since the mid-1990s. Its aggregate credit portfolio and equity investment came to \$18.2 billion in 2013, surpassing the \$13.3 billion in advances affirmed by IDB that same year.

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<sup>17</sup> "China-backed AIIB approves \$509 million for first four projects", Asia Times, 24 June 2016

One of the elements behind CAF's credit development has been the fast speed at which it favors loans, averaging three to five months instead of IDB's 10 months and the World Bank's 16 months. What's more, CAF has limited bureaucratic methods for credit endorsement; the World Bank has kept up an unbending and legalistic approach. CAF does not have formally characterized defend strategies and just a short rundown of managing standards. It forces no coupling requirements on the environmental and social parts of projects, past national legislation. A last factor adding to CAF's development has been its absence of a resident top managerial staff. Rather, advances are endorsed by senior administration of the bank, which expands spryness in the endorsement procedure.

In light of its financial assessment of projects, CAF and the acquiring country concede to grids of moves to be made by the borrower. Inability to satisfy the concurred activities, nonetheless, does not really block the dispensing of credits, as CAF may offer specialized help to enable the country to meet its commitments. The fact that CAF favors loans rapidly and gives adaptable loaning conditions clarifies why Andean member countries have progressively borrowed from CAF – despite the fact that its advances are more costly, because of its lower credit rating– instead of from IDB or the World Bank.

In the mid-1990s, as IDB perceived the aggressive weights delivered by CAF and different banks in locale, and CAF and alternate banks perceived the breaking points of their HR, the two sides started a procedure of dialogue and discussion that at last brought about coordinated effort. They construct their cooperation with respect to three principles: perfect systems and arrangements, reciprocal activities and improved assets. In light of these principles, IDB began co-financing projects with CAF and other sub-local banks, subject to IDB's stringent guidelines overseeing such projects. In view of the accomplishment of those endeavors, CAF has likewise started working with the World Bank.



The changed flow in Latin America amongst CAF and IDB give vital lessons to Asia. For instance, if AIIB gives loans speedier and more flexible techniques and shields than existing MDBs, it might extend tasks rapidly, in this manner putting aggressive weight on ADB and the World Bank. Also, ADB and the World Bank ought to consider working with AIIB to improve the last's ability as a MDB and help make it a good and corresponding bank, whose extra assets could be contributed to deliver more solid Asian economies. At long last, similarly as rivalry from CAF drove IDB to augment its concentration from investment in infrastructure to investment in capacity building and social and public sectors (Prada 2014), ADB may wish to extend its help in zones where it has comparative advantages over AIIB.

### **Conclusion and recommendations**

The AIIB aims to give an extra system to worldwide financing and to play a correlative role in less organized economic zones. Certainly, solid rivalry enhances the proficiency of resource allocation and can go about as an impetus for essential changes in worldwide financial governance. Notwithstanding China's thought processes, Asia stands to profit enormously from the foundation of the AIIB. Billions of dollars in investment either scattered specifically or utilized by AIIB can't however extraordinarily enhance energy supply and grow the systems of highways and railroads in the area. The expected infrastructure blast drove by AIIB will release the repressed request and invigorate the drowsy world economy.

This paper describes AIIB as a huge MDB claimed and controlled fundamentally by Asia's rising and developing countries. These countries are attempting to activate their own particular assets to finance their own infrastructure investment individually terms. This self improvement approach is commendable, and the worldwide community may locate a justifiable reason motivation to help it.

Given that AIIB is intensely ruled by China in its basic leadership and activities, the paper has likewise recognized two perspectives concerning the role of the bank, one positive and one skeptical.

The positive view sees China-drove AIIB helping Asia's creating nations in financing infrastructure development that advantages them as well as has positive overflows to firms and peoples outside of these countries. It discovers an incentive in China's readiness to accept initiative, and utilize its growing economic and financial power, in ensuring global public goods as reinforced infrastructure improvement and network in Asia, and in the opportunity the bank accommodates China to wind up a responsible universal player.

The skeptical view sees China's capability to utilize AIIB as an instrument for: undermining existing MDBs – especially the World Bank and ADB – by receiving low measures in running the bank; lightening its own economic issues of excess capacity, moderate development, and vitality and asset uncertainty; and extending its geopolitical range of prominence in Asia through the One Belt, One Road activity. From this viewpoint, it would be judicious for Japan (and, so far as that is concerned, the United States) to judge if AIIB will fill in as a beneficial bank that encourages the arrangement of worldwide public goods, or as a bank that for the most part serves China's financial and geopolitical interests. Japan, together with the United States, needs to check whether AIIB will be keep running as a fiscally solid bank, whose activities incorporate satisfactory environmental and social protections.

Given the lessons from IDB's coordinated effort with CAF and other sub-provincial MDBs in Latin America, empowering the World Bank and ADB to work with AIIB is the correct course. It is to the greatest advantage of the universal group to maneuver China and AIIB into the current worldwide financial order and help make China a responsible global stakeholder.

In additionally, we can give some recommendations about future of the AIIB:

- AIIB should lead strategic partnerships with infrastructure project researchers such as the Sustainable Infrastructure Foundation and PPP Knowledge Lab. Creating such relationships will relieve critics who believe that AIIB is a competitor in the international system rather than a collaborator.
- Increased civil society involvement can only have positive consequences for the credibility and impact of the AIIB. AIIB should give more access and information to non-governmental organizations on projects of AIIB. If AIIB corporate with non-governmental organizations in its process it will send strong message about its commitment to transparency and standards. AIIB shouldn't be only aware agendas of some organizations which to impose standards but also to change them. At last, civil society engagement would fill an extra need: to build Western trust in an organization that is headquartered in a nation that shows less regard for civil society.

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