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Asian Infrastructure Investment Bank:
As a new comer in the society of Multilateral Development Banks

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Introduction

The Asian Infrastructure Investment Bank (AIIB) has been in operation for approximately 19 months since it was officially launched on January 16th, 2016. The AIIB, together with the New Development Bank (NDB) and the BRICS Contingent Reserve Arrangement (CRA), collectively has a combined capital base of $250 billion. This reflects significant financial capacity in emerging markets, China's growing economic clout in particular. Some view these China-led initiatives as China's attempt to challenge the existing US-led global financial system, whereas others have high confidence for these new multilateral institutions hoping that they could provide much-needed capital resources to global development.

The absence of US and Japan in the AIIB has not discouraged many regional and non-regional countries to join this young multilateral institution. Over the past 19 months, the AIIB's membership has enlarged three times, bringing half of the EU, a significant portion of the OECD, and many more developing countries into this new institution. Moreover, the AIIB's lack of track record did not prevent the young institution from being granted a credit rating of Aaa –the same rating as the World Bank–by Moody's Investors Service on June 29th, 2017. Shortly after, Fitch gave the AIIB its highest possible rating (AAA) on July 13th, and S&P also assigned its top notch rating (AAA/A-1) to the AIIB on July 18th.

Since its establishment, the AIIB has generated considerable debates. On the one hand, its supporters emphasize that the AIIB will add more capacity to provide much-needed capital resources to finance the huge infrastructure investment gap in Asia. On the other hand, its naysayers are mostly concerned about China's dominance over the AIIB. They are worried that China will use the AIIB to advance its own strategic interests overseas. Additionally, they are also concerned that the AIIB may not observe high standards of governance, and may ignore environmental and societal impacts. With less than two years' operational experience, there is not enough evidence to definitively judge the extent to which the AIIB in practice departs from traditional multilateral development banks (MDBs), due to a lack of track record. Existing facts have not revealed that the AIIB is simply a multilateral institution whose sole purpose is to promote China's geopolitical interests overseas. However, some unconventional features of the AIIB especially its governance structure, and uncertainties regarding its future trajectory, have not eliminated the concerns and suspicions among some countries, including but not limited to the US and Japan.

This report aims to clarify some myths and confusions surrounding the fledgling AIIB by separating the knowns apart from the unknowns. It intends to assess the rationale of suspicions against the AIIB so as to understand what may have generated current negative perceptions of the AIIB. By doing so, this analysis intend to identify some challenges for the AIIB going forward.

The following discussion begins with some stylized facts about the AIIB in Section 1. Section 2 put the 19-month-old AIIB in comparative perspective, analyzing its unconventional features relative to existing MDBs (particularly the World Bank and the Asian Development Bank). It also gives some examples of cooperation between the AIIB and other existing MDBs. Section 3 discusses different perspectives of the AIIB from the view of China, participating EU/OECD countries, and the US and Japan. This section analyzes why China initiates the AIIB, what are the motivations for some EU/OECD countries to join the AIIB, and why the US and Japan are still suspicious about the AIIB and have not join. Section 4 moves on to the challenges for the AIIB as a multilateral institution going forward. Finally, the findings of this report are summarized in the conclusion, Section 5.

The bottom line of this report is that it is still too early to make a judgement call about the AIIB and its values. There has not been any significant evidence indicating that it is a China-centric agency. However, if the AIIB as a young institution attempts to win broader support, it cannot ignore concerns that have been raised up and has to address those issues directly. Moreover, it must manage its perceived relationship with China as well.

1. AIIB: Some Stylized Facts

1.1) Membership and its Membership Expansion

The AIIB was officially launched in Beijing on January 16th, 2016, with 57 founding members, including 37 in Asia and 20 non-regional countries (See Figure 1). Being the largest shareholder of the AIIB, China has an initial subscription of $29.78 billion in authorized capital stock in the AIIB out of a total of $100 billion, and made a grant contribution of another $50 million to the AIIB Project Preparation Special Fund on January 16th, 2017.[1] India is the second-largest shareholder, contributing $8.4 billion. Russia is the third-largest shareholder, contributing $6.5 billion, and Germany is the largest non-regional shareholder (also the fourth largest shareholder), contributing $4.5 billion.[2]

While being open to the participation of non-regional members, the AIIB is committed to and prioritizes the ownership of Asian members. This is reflected in the capital structure requirement and the requirements for the composition of Board of Governors in the AIIB's Article of Agreement (AOA)[3], which requires no less than 75 percent of the total subscribed capital stock to be held by regional members unless otherwise agreed by the Board of Governors by a Super Majority vote.[4] The AOA also requires that 9 out of the AIIB's 12 members be elected by the Governors representing regional members, and 3 representing non-regional members.[5]

The prioritization of Asian-members' ownership of the AIIB does not necessarily mean that the AIIB's investment is restricted only to Asia. According to its AOA, the AIIB aims to "improve infrastructure connectivity in Asia,"[6] and it will invest in Asia and beyond as long as the investment is "concerned with economic development of the region."[7] Moreover, the AIIB's investment areas are not restricted to infrastructure but also include "other productive sectors".[8]

The AIIB's membership has expanded three times during the 19-month period since it was established. As of June 2017, the AIIB has 80 approved members.[9] The AIIB's President Mr.

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[1] See AIIB website at https://www.aiib.org/en/news-events/news/2016/20160625_004.html for "AIIB's Board of Directors establish a Project Preparation Special Fund: China provides initial $50 million start-up contribution."

[2] For details of AIIB members' contribution, refer to AIIB's official website. Accessed at https://www.aiib.org/en/about-aiib/governance/members-of-bank/#

[3] See AIIB's Articles of Agreement (AOA) at https://www.aiib.org/en/about-aiib/basic-documents/_download/articles-of-agreement/basic_document_english-bank_articles_of_agreement.pdf

[4] AIIB AOA Article 5.2

[5] AIIB AOA Article 25 (i) and (ii)

[6] AIIB AOA Article 1.1

[7] AIIB AOA Article 11.1 (a)

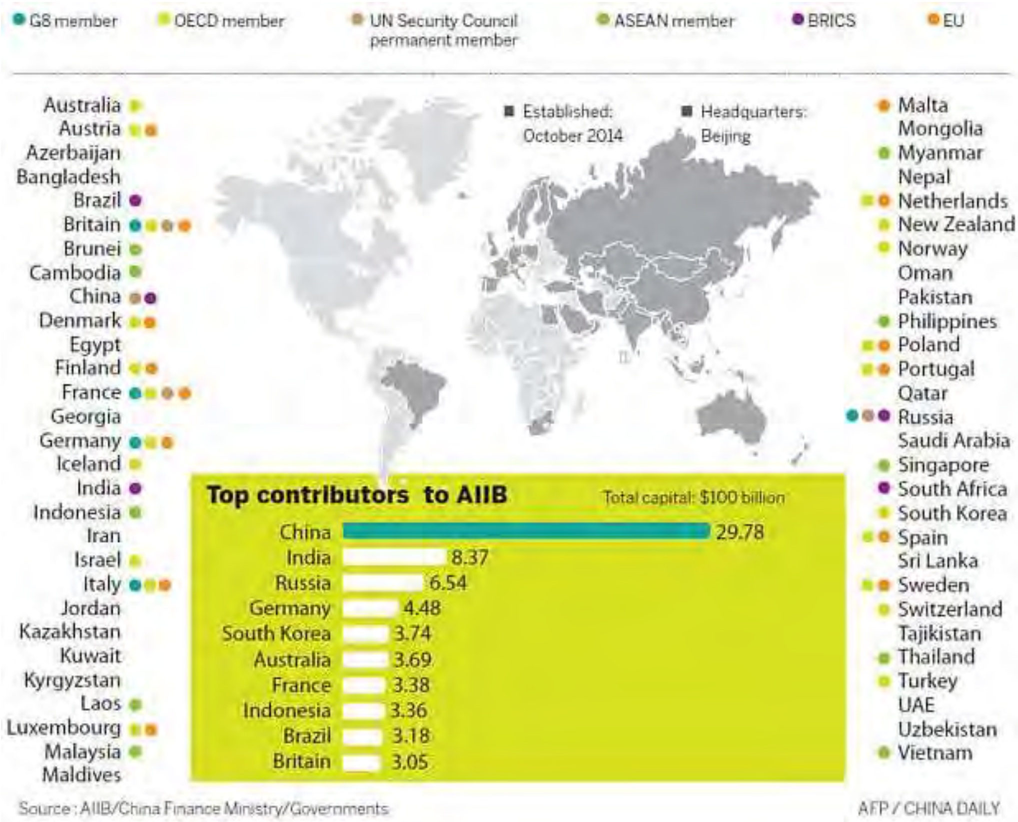
[8] AIIB AOA Article 1.1 and 2

[9] The first approval of new membership took place in March 2017. Then the AIIB's Board of Governors approved 13 applicants (five regional and eight non-regional members) to join the bank, bringing the Bank's total approved membership to 70. Among the eight non-regional members, there were Belgium and Ireland, the only two European members of the ADB who did not join AIIB earlier. With the membership of Belgium and Ireland approved, it denotes that all the European members of the ADB have joined the young AIIB. For details about first expansion, see AIIB's press release "AIIB Welcomes New Prospective Members Bank approves 13 new applicants; Expands membership to 70." Accessed at https://www.aiib.org/en/news-events/news/2017/20170323_001.html In less than two-month time after this first membership expansion, the AIIB further expanded its membership in May. This time,

Jin Liqun said the AIIB would have 85 members by the end of this year.[10]

After these three membership expansions, the 19-months-old AIIB is now larger than other regional MDBs. For example, its membership has exceeded that of the 51-year-old ADB, who has 67 members, 48 of which are from within the Asia-Pacific and 19 outside. Its membership is also larger than that of the Islamic Development Bank who has 57 members, and the Inter-American Development Bank whose membership is 48 at the current stage. But still, AIIB's membership is far smaller than that of the World Bank, who has 188 members.

Figure 1 AIIB 57 Founding Members



Source: The Telegraph,

http://www.telegraph.co.uk/sponsored/china-watch/business/11763107/aiib-investment-will-benefit-the-west.html

it approved the membership of three regional members and four non-regional members. For details about the second expansion, see AIIB's press release "AIIB Further Expands Its Membership Bank approves three new regional applicants, four new non-regional applicants." Accessed at https://www.aiib.org/en/news-events/news/2017/20170513_001.html In less than one month after the second expansion, the AIIB enlarged its membership. Three more countries were approved to join the AIIB as members this time, bringing the total number of members up to 80 with 46 regional members and 34 non-regional members. For details about the third expansion, see AIIB's press release "AIIB Approves Membership of Argentina, Madagascar and Tonga. The Bank's approved membership rises to 80." Accessed at https://www.aiib.org/en/news-events/news/2017/20170616_003.html

[10] "China-led AIIB expects to have 85 members by end-2017 – president," *Nikkei Asian Review*, May 14, 2017. Accessed at http://asia.nikkei.com/Politics-Economy/International-Relations/China-led-AIIB-expects-to-have-85-members-by-end-2017-president

The AIIB's wide membership base is not that dissimilar to that of the ADB's when the latter was first established in the 1966. In fact, Takeshi Watanabe, the ADB's first president, supported the view that ADB's membership should include non-regional countries, especially developed countries in North America and Europe.[11] Similarly, a wider membership allows the AIIB to have broader access to major global capital markets, particularly developed capital markets. Additionally, a broader membership subscription also increases the exchanges of technical expertise between developed economies and emerging economies. As will be discussed soon in the following, the AIIB has attracted many EU/OECD countries as well as non-regional developing countries. Reasons why many EU/OECD countries would join the AIIB will be discussed in Section 3. Regarding why the AIIB has received wide support from developing countries, specific reasons may vary across countries but there are a couple of shared factors that have been discussed by observers. Firstly, developing countries see in the AIIB opportunities to get much-needed loans of their infrastructure financing. Secondly, they view the AIIB as a China-led project and hope to cultivate better relationship with China by supporting the AIIB. Thirdly, some also pointed out a consensus among developing countries that they do not have enough representation in existing multilateral international institutions. Some also pointed out that the AIIB as the first multilateral institution initiated by a non-western developing country appeals to the need of emerging powers to increase their voice and representation in global society.[12]

1.2) Potential EU/OECD Members' Positive Role

The AIIB's EU/OECD members potentially could have some positive influence over the institutional building and standard setting of the young institution. The European Commission has recognized that "an EU presence in China-driven institutions would contribute to the adoption of best practices and fair, global standards. Adherence to such standards will be promoted by the AIIB entering into partnership with existing Multilateral Development Banks."[13] It has also been argued that joining the AIIB would give the European countries access to the decision-making process within the AIIB, and may even allow the European countries to play a role in shaping the AIIB's organizational structure. This interest is well put by a member in the European Union Chamber of Commerce, "Simply put, if you partake, you have a stake, and will likely be involved in decisions that shape the overall organization - this is

[11] McCawley, Peter. *Banking On the Future of Asia and the Pacific: 50 Years of the Asian Development Bank*, p40
[12] See for example, Antonio Villafranca, "At the Crossroads of New Global Governance: China's AIIB and the Western World" ISPI Analysis No. 304, September 2016. Accessed at http://www.ispionline.it/sites/default/files/pubblicazioni/analisi304_villafranca_02.09.2016.pdf
[13] European Commission European Political Strategy Center, "Engaging China at a Time of Transition: Capitalising on a New Era of Chinese Global Investment and Foreign Policy Initiatives," July 15, 2016. Accessed at https://ec.europa.eu/epsc/publications/strategic-notes/engaging-china-time-transition_en

what the major European nations are looking for."[14]

There has been some example of EU/OECD members' activism in monitoring the AIIB's funds allocation. In 2016, Demark and the UK, both of whom are AIIB's OECD members, proposed that contributions to the AIIB would qualify as official development aid (ODA).[15] After a thorough review of AIIB's AOA, mandate, work plan and other available materials, the OECD's Secretariat of the Development Assistance Committee (DAC) recommended including AIIB on the List under the category of "Regional development banks,"[16] which means the OECD would recognize the AIIB as one of the ODA-eligible international organizations.[17] Once approved, the Secretariat of DAC will be able to "monitor the future recipient breakdown of the AIIB's borrowers through AIIB's future Creditor Reporting System and thereby confirm that the actual share of funds going to countries on the DAC List of ODA Recipients is over 90%."[18] That is to say, if approved, there would be additional external monitor to make sure that the funds channeled through the AIIB to recipient countries are used properly.

1.3) Governance Structure

Currently, the AIIB is organized around the following four sections:[19]

1) Board of Governors: According to the AIIB's AOA, the Board of Governors is the highest decision-making body. As is stated in the AOA, "all the powers of the Bank shall be vested in the Board of Governors" with a few exception.[20] The current Board of Governors consists of 56 members coming from 55 countries plus one governor from Hong Kong as of June 17, 2017. The Board of Governors delegates powers to the Board of Directors that are responsible for the general operation of the AIIB.
2) Board of Directors: The AIIB's Board of Director is non-resident and currently has 12 members. The AOA Article 25 (i) and (ii) require that 9 out of these 12 members be elected by the Governors representing regional members, and 3 representing non-regional members as mentioned before. They each represent several founding members as their constituency. This non-resident Board of Directors are responsible for

[14] "Why Europe defies the US to join a China-led bank," *Deutsche Welle*, March 18, 2015. Accessed at http://www.dw.com/en/why-europe-defies-the-us-to-join-a-china-led-bank/a-18322773

[15] For details, see "DAC Working Party on Development Finance Statistics Proposals for changes to Annex 2 of the Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire." Accessed at http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC/STAT(2016)6&docLanguage=En

[16] Ibid, p3

[17] For the OECD's list of ODA-eligible international organizations, refer to http://www.oecd.org/dac/stats/annex2.htm

[18] Ibid, p3

[19] For detailed information about the governance structure of AIIB, refer to the AOA Chapter V. For the organization structure, please refer to the chart at https://www.aiib.org/en/about-aiib/governance/_common/_download/AIIB_organizational_structure.pdf

[20] AIIB AOA 23.1. For the exceptions, also refer to AOA 23.1

approving AIIB's strategy, annual plan and budget; establishing policies; taking decisions concerning Bank operations; and supervising management and operation of the AIIB. The AOA Article 26 (iv) also requires the Board of Directors to establish an oversight mechanism following the principles of "openness, transparency, independence and accountability". The non-resident feature of the Board of Directors has generated some concerns, which will be discussed further in Section 3.

3) Senior management team:[21] The senior management team of the AIIB is led by the President, who currently is Mr. Jin Liqun. Mr. Jin has been elected for a five-year term by the Board of Governors in accordance with the AOA Article 29. Underneath the President there are five Vice-Presidents (VPs), a General Counsel and a Chief Risk Officer.[22]
4) An International Advisory Panel (IAP): The IAP is to be comprised of global experts who could provide the AIIB's management with impartial advice and perspectives. The IAP meets in tandem with the AIIB's Annual Meeting, or as requested by the President. Panelists of the IAP are appointed by the AIIB's President to serve two-year terms. They are given a small honorarium but no salary. The AIIB pays the costs associated with Panel meetings.[23]

President Jin has emphasized on different occasions that the core value[24] underneath the AIIB's management style is "Lean, Clean and Green": lean with a small efficient management team and highly skilled staff; clean, an ethical organization with zero tolerance for corruption; and green, an institution built on respect for the environment. But still, such messages have not been able to fully eliminate reservations and concerns about the young AIIB. This will be discussed in more detail in Section 3.

1.4) Financial Fundamentals

The AIIB's initial total capital is $100 billion, equivalent to about 61 percent of the ADB's initial total capital, 43 percent of the World Bank's, 30 percent of the European Investment Bank's (EIB), and more than twice of the European Bank for Reconstruction and Development's (EBRD). Of this $100 billion initial capital, 20 percent is to be largely paid-in

[21] For more information about the current senior management team, see AIIB's website at https://www.aiib.org/en/about-aiib/governance/senior-management/index.html

[22] According to the AOA Article 29, VPs are appointed by the Board of Directors on the recommendation of the President, on the basis of an open, transparent and merit-based process. The other officers and staff are appointed by the President in accordance with regulations adopted by the Board of Directors.

[23] For a list of current Panelists of the IAP, see the AIIB's website at https://www.aiib.org/en/about-aiib/governance/international-advisory-panel/index.html

[24] For AIIB's core value "Lean, clean and green" see for example, the Section B of the Code of Conducts for bank personnel, shown in the Summary Proceedings of The Inaugural Meeting of the Board of Governors, p73. Accecced at https://www.aiib.org/en/about-aiib/governance/board-governors/.content/index/_download/20160816034745788.pdf

by 2019 and fully paid-in by 2024,[25] and the remaining 80 percent is in callable capital.

Taking a look at the AIIB's end-of-year financial statement in 2016, it shows that the total assets were $17,795,367,000, and the total member's equity was $17,789,829,000. The total liabilities were at a level of $5,538,000, all of which were either staff costs payable ($436,000) or accrued expenses ($5,102,000).

On the liability side of the AIIB's balance sheet, there is no debt at the current stage since the AIIB has not issued any debenture or borrowed money from outside. However, to reduce the funding costs and to gain access to wider source of capital, the AIIB cannot rely solely on equity and has to issue debenture and take some leverage, particularly given that the AIIB intends to be a for-profit institution. In February 2017, the AIIB signed an International Swaps and Derivatives Association (ISDA) Master Agreement with the International Finance Corporation (IFC), a member of the World Bank Group. According to the AIIB's Treasurer, Mr. Søren Elbech, this agreement would facilitate local currency bond issuance in client countries.[26]

The AIIB also managed to obtain a high quality credit rating, and was granted Aaa rating by Moody's Investors Service on June 29th, 2017. On the same day, the AIIB disclosed that it may issue its first bond in US dollars as early as in 2017. According to Mr. Søren Elbech, the bond would be a benchmark bond but he did not specify a maturity.[27] He also acknowledged that before the AIIB's first bond issuance, there are still several steps must be taken, including getting a risk weighting, completing documentation, installing relevant IT systems, and completing a recruitment plan.[28]

The AIIB also stated its mid-and long term goal regarding how it wants to mobilize private capital in its first Annual Report of 2016. In the medium term of three to five years, it intends to "actively originate and lead transactions that mobilize private capital and make it a trusted partner for all parties involved in the transactions that the Bank leads." In the long term, the AIIB aims to be the "repository of know-how and best practices in infrastructure finance."[29] Given that the AIIB has only been in operation for a very limited time, it is wise to identify how the AIIB's behavior deviates from its stated blueprint.

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[25] According to the AOA, payments for paid-in capital are due in five instalments, with the exception of members designated as less developed countries, who may pay in ten instalments.

[26] "AIIB and IFC Sign ISDA Master Agreement to Expand Infrastructure Investments in Asia" Accecced at https://www.aiib.org/en/news-events/news/2017/20170209_001.html#

[27] "AIIB eyes inaugural US dollar bond as soon as this year," *The Business Times*, June 29, 2017. Accessed at http://www.businesstimes.com.sg/banking-finance/aiib-eyes-inaugural-us-dollar-bond-as-soon-as-this-year

[28] "AIIB may be only months away from issuing bonds," *Nikkei Asian Review*, July 5, 2017. Accessed at http://asia.nikkei.com/Politics-Economy/Economy/AIIB-may-be-only-months-away-from-issuing-bonds?page=2
Also, "AIIB says preparation needed before bond issuance," Xinhua, June 30, 2017. Accessed at http://news.xinhuanet.com/english/2017-06/30/c_136407351.htm

[29] AIIB's Annual Report and Accounts 2016 "Connecting Asia for the future," p22. Accessed at https://www.aiib.org/en/news-events/news/2016/annual-report/.content/download/Annual_Report_2016.pdf

2. AIIB in Comparative Perspective

2.1) Major Differences between AIIB and other MDBs

There are several features that distinguish AIIB from other MDBs such as the World Bank and the ADB, which are discussed in the following.

- *Capacity and resource difference.* The AIIB is still a very young institution compared with other Bretton Wood System multilateral institutions. At the current stage, it has less capital base, less technical experience and human resource capacity compared with the World Bank and the ADB. It has about 100 staffs with a goal to reach about 500 by the end of 2018,[30] whereas the ADB has 3,092 employees and the World Bank has more than 10,000. AIIB's small team, given it keeping about 500 staffs after 2018, may restrict the depth of its independent sector expertise. As a consequence, the AIIB might be dependent upon other partners for comprehensive project assessments.

Table 1 Comparison of WB, ADB, and AIIB

	World Bank	ADB	AIIB
Capital Base	$252.8 billion	$142.6 billion	$100 billion*
Credit rating	Triple A	Triple A	Triple A
Bond Denomination	58 currencies	34 currencies	NA
Number of Employees	more than 10,000	3,092	About 100**
Number of Membership	188	67	80**

Note: * As of the end of 2016, $89 billion was subscribed.

** As of June 2017, including 24 prospective members.

- *Different procurement policies restrictions.* The AIIB applies universal procurement policies and does not tie its loans or project financed by it to AIIB's membership. This is largely similar to the majority of MDBs such as the World Bank and the EBRD, but different from the ADB despite that the ADB has been trying to ease some restrictions in recent years. When the ADB was established, its founders wanted to use the preferential treatment of member countries in procurement as a point of attraction to attract more countries, especially developed countries, to join the ADB.[31] The AIIB's AOA states that

[30] "China's AIIB: a surprisingly normal bank," EIU report, October 28, 2016. Accessed at http://country.eiu.com/article.aspx?articleid=224763606&Country=Uzbekistan&topic=Politics

[31] The ADB since its establishment has implemented legal restrictions in the ADB Charter that tie procurement generally to ADB membership. ADB Charter Article 14.9 states that "The proceeds of any loan, investment or other financing undertaken in the ordinary operations of the Bank or with Special Funds established by the Bank pursuant to paragraph 1 (i) of Article 19, shall be used only for procurement in member countries of goods and services produced in member countries, except in any case in which the Board of Directors by a vote of the Directors representing not less than two-thirds of the total voting power of the members, determines to permit procurement in a non-member country or of goods and services produced in a non-member country in special circumstances making such procurement appropriate, as in the case of a non-member country in which a significant amount of financing has been provided to the Bank." In fact, the ADB and the Inter-American Development Bank were the only multilateral development banks that generally continue to tie procurement to member countries. In its very beginning, the ADB

there will be no nationality restriction on procurement of goods and services for AIIB-financed operations.[32] This is extremely similar to the EBRD[33] to the extent that even the language and words used by the AIIB are almost the same as the EBRD's procurement policies regarding membership restrictions. However, there is a difference between the AIIB and EBRD on procurement policies: the AIIB has removed the conditionality stated in the EBRD's policies regarding making "loans and other operations conditional on international invitations."

- *Different era of establishment and lack of US support to the AIIB.* The majority of existing MDBs were created between 1950s and 1990s. They have been in operation for at least a decade before the AIIB was launched. The AIIB no doubt entered into the world of MDBs in a very different era compared with the majority of existing MDBs. This means that the AIIB is not an enterprise that starts from scratch with no examples to follow. Rather, there are plenty of existing institutions whose experience and expertise could be appreciated by the AIIB.

  Moreover, the US has on average played a constructive and even leading role in the formation of these MDBs. For example, in 1991, US policy makers took the lead to create the European Bank for Reconstruction and Development (EBRD). The US also spent tremendous efforts trying to create a Middle East and North Africa Development Bank in the mid-1990s, though its sweats eventually proved to be wasted.[34] So far, regarding AIIB, the US still has not shown any concrete interest in joining as a member. Rather, the US tried to lobby against Asian countries from joining the AIIB,[35] though the efforts failed. Closely aligned with the US, Japan's stance towards the AIIB has not been supportive either.

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put in place the member country procurement eligibility restrictions with the intention to attract broader membership, particularly targeting at developed countries. The ADB has studied the pros and cons of such procurement restriction policies for a long time with the intention to possibly relax or remove the restrictions. It has also been making rapid adaptations with the birth of the AIIB and the Trump-led "America First" era. In April 2017, the ADB approved a new procurement framework that will be rolled out in phases for new projects starting July 2017. However, even this modernized procurement policy framework still does not adopt the universal procurement policies.

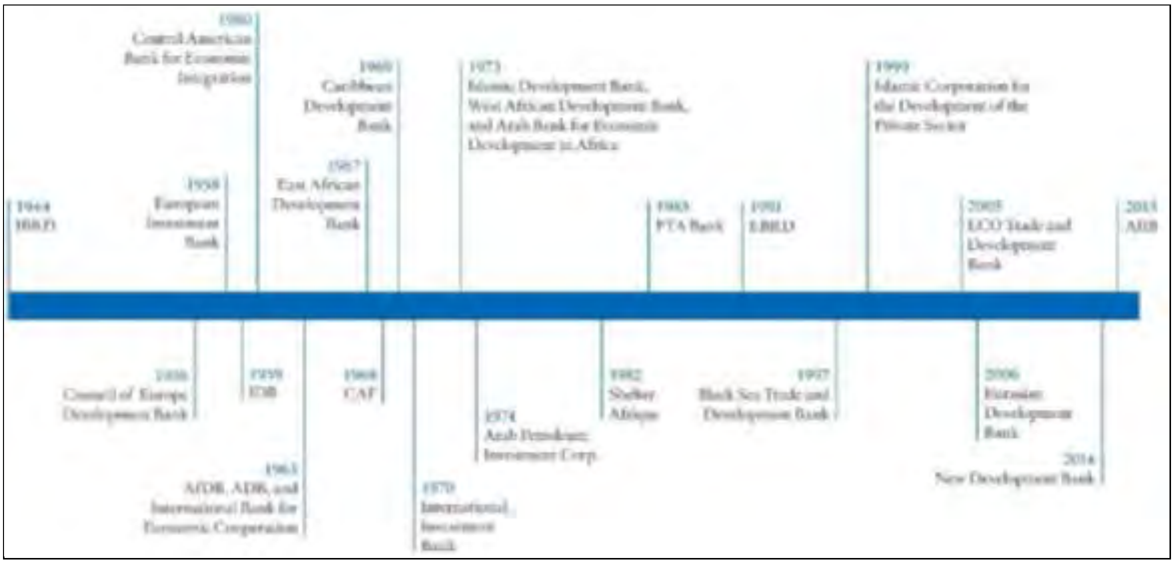
[32] In AIIB's AOA Article 13.8, it clearly states, "The Bank shall place no restriction upon the procurement of goods and services from any country from the proceeds of any financing undertaken in the ordinary or special operations of the Bank."

[33] The EBRD's "Procurement Policies and Rules for projects financed by the European Bank for Reconstruction and Development" (revised in October 2014 and approved by the Bank's Board of Directors on 6 May, 2009) states, "the Bank shall place no restriction upon the procurement of goods and services from any country from the proceeds of any loan, investment or other financing undertaken in the ordinary or special operations of the Bank, and shall, in all appropriate cases, make its loans and other operations conditional on international invitations to tender being arranged."

[34] Dalia Dassa Kay, "Policy Paper 43: Banking on Peace: Lessons from the Middle East Development Bank," University of California-San Diego Institute of Global Conflict and Cooperation, October 1998. Accessed at http://escholarship.org/uc/item/3gt5t4gs

[35] For example, see "Why the US Is Trying to Squash China's New Development Bank," *The Diplomat,* October 10, 2014. "U.S. Opposing China's Answer to World Bank," *The New York Times,* October 9, 2014.

Figure 2 Timeline of MDB Establishment[36]



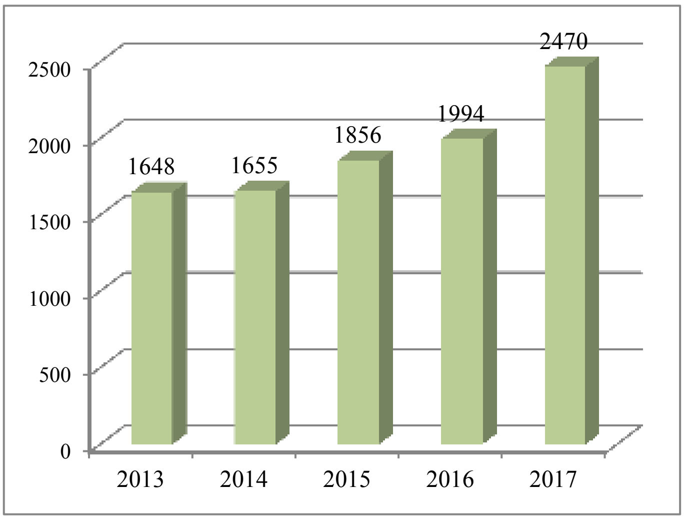
- *AIIB's unique signaling effect compared with other MDBs.* The AIIB is the first multilateral for-profit institution created by a non-western country. The AIIB, together with the New Development Bank (NDB) and the BRICS Contingent Reserve Arrangement (CRA), represents the rise of formidable financial power in emerging market economies, China in particular. These three non-western financial institutions collectively indicate that countries who were borrowers from international development institutions are becoming creditors to developing countries as well.[37] It is true that China still takes out loan from the World Bank (see Figure 3) and the ADB, but China at the same time has also been providing generous loans to other developing countries in the past a few years. That China still borrows from World Bank and the ADB is not because China does not have the capital resource. Rather, it is because China needs the technical expertise of these international institutions. This may imply that the China-initiated AIIB cannot be a challenge or alternative to the World Bank or the ADB at least in the near future, and part of the reason is that the young AIIB still has to rely on other MDBs' technical support and expertise.

Figure 3 The World Bank's Lending to China by Fiscal Year*

[36] The Figure is cited from a CRS report on AIIB, and data used in the graph was from AIIB. See Martin A. Weiss, "Asian Infrastructure Investment Bank (AIIB)," Congressional Research Service, February 3, 2017. Accessed at https://fas.org/sgp/crs/row/R44754.pdf

[37] For example, David Dollar argued that if the current trends continue, "China will become the largest net creditor around 2020." See in David Dollar, "China as a Global Investor," Asia Working Group Paper 4, May 2016. Accessed at https://www.brookings.edu/research/china-as-a-global-investor/

(as of August 3rd, 2017, include both IBRD and IDA, $ millions)



(Source: the World Bank, http://www.worldbank.org/en/country/china/projects)

Note: * As of June 30, 2014, World Bank's cumulative lending to China was about $54 billion for 376 projects. The portfolio is allocated basically in environment, transportation, urban development, rural development, energy, water resources management, and human development.

Table 2 ADB's Cumulative lending, grant and technical assistance approvals to PRC*

(as of the end of 2016)

Sector	Number of Projects	Total Amount ($Million)	% of total
Agriculture, Natural Resources and Rural Development	225	4,676.48	12.88
Education	27	312.55	0.86
Energy	181	5,939.77	16.36
Finance	88	764.67	2.11
Health	21	61.22	0.17
Industry and Trade	56	830.35	2.29
Public Sector Management	126	67.34	0.19
Transport	248	17,797.23	49.01
Water and Other Urban Infrastructure and Services	119	5,327.23	14.67
Multisector	42	536.86	1.48
Total	1,133	36,313.69	100

(Source: ADB data, https://www.adb.org/sites/default/files/publication/27789/prc-2016.pdf)

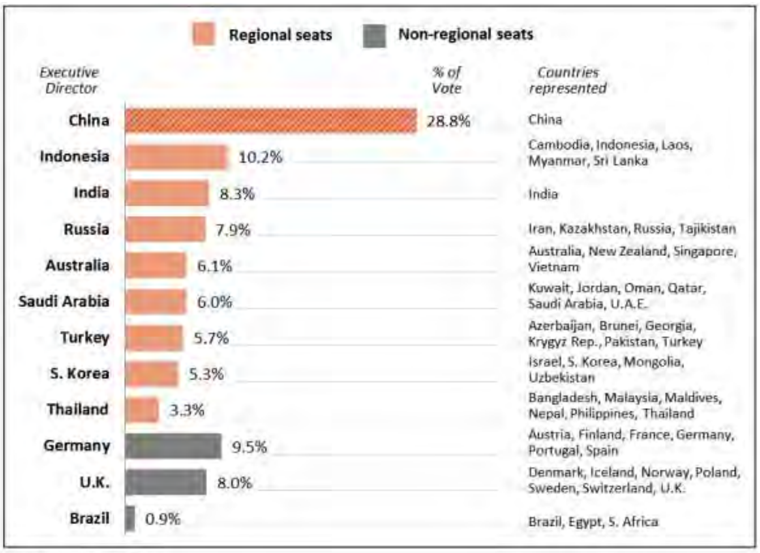
Note: * Grants and technical assistance include ADB-administered cofinancing; includes sovereign and non-sovereign loans and technical assistance; using primary sector in reporting of approvals; numbers may not sum precisely because of rounding.

- *Governance structure difference.* In terms of governance structure, AIIB has two key features that distinguish it from other MDBs:

(1) Non-resident director system. AIIB does not have a resident Board of Directors that represents member countries' interests on a day-to-day basis. Rather, as part of the AIIB's lean ethos the Board of Governors has delegate a broad range of operational oversight functions to a non-resident Board of Directors composed of 12 directors. These 12 directors do not need to reside in AIIB's headquarter in Beijing. Instead, they can stay in their home countries to vote and make decisions.[38]

(2) AIIB gives more decision-making authority to regional countries and its largest shareholder, China. China has more than a quarter of the vote, more than double of the collective voting power of Cambodia, Indonesia, Laos, Myanmar and Sri Lanka (these five countries are represented by Indonesia). China's voting power is also more than triple of India's voting power, who is AIIB's second largest shareholder. (See Figure 4 and Appendix 1)

Figure 4 Voting and subscriptions power of AIIB members[39]



Source: AIIB, CRS.

- *Membership requirement difference.* According to AIIB's AOA, its membership is open to members of the World Bank or the ADB.[40] This means countries who are already members

[38] AIIB By-Laws Section 2(b) states that "Said Rules of Procedure shall provide, inter alia, for regular meetings of the Board of Directors at least quarterly, for special and electronic meetings, and for voting without meeting, as provided in Article 27 of the Articles of Agreement." AIIB Rules of Procedure of the Board of Directors Section 3(b) states that "Pursuant to Section 2(b) of the By-Laws, the Board shall hold regular meetings at least quarterly in each year. The Board may be called into sessions at any time by the President on his own initiative. The President shall call the Board at any time at the written request of any three (3) Directors."

[39] The Figure is cited from a CRS report on AIIB, and data used in the graph was from AIIB. See Martin A. Weiss, "Asian Infrastructure Investment Bank (AIIB)," Congressional Research Service, February 3, 2017. Accessed at https://fas.org/sgp/crs/row/R44754.pdf

[40] According to the "Agreement Establishing the Asian Development Bank," ADB's membership is open to: 1) members and associate members of the United Nations Economic Commission for Asia and the Far East; and 2) other

of these two established multilateral development banks are automatically candidates for the AIIB membership. Such targeted membership requirement may have facilitated the rapid expansion of AIIB over the past 19 months. Unlike other MDBs, the AIIB allows for non-sovereign entities to apply for AIIB membership, assuming their home country is a member. This may mean that the door is open for special administrative regions or cities, private entities, government-owned investment entities, which contradicts with the traditional non-profit model of the existing development banks. A recent example is Hong Kong. Being a special administrative region of China, it was approved to join the AIIB as a member in March 2017.

2.2) The AIIB, the Belt and Road Initiative, and its Co-financing Activities with Other MDBs and International Partners

It is widely perceived that the AIIB is a tool of Chinese foreign policy, and that it is a vehicle for the implementation of the Belt and Road (One Belt, One Road) Initiative. The AIIB and some Chinese scholars have tried to distinguish itself from China's Belt and Road Initiative. For example, during a meeting with global executives in June 2016, the AIIB President Jin Liqun clarified China's position, saying the AIIB "was not created exclusively for this initiative," [41] and that the AIIB would "finance infrastructure projects in all emerging market economies even though they don't belong to the Belt and Road Initiative."[42] The AIIB's CFO, Thierry De Longuemar, also said in a CNBC interview in June 2017 that while the Belt and Road "is a domestic effort from China, the AIIB is a global initiative covering the entire world."[43] The *Global Times* published an article by Liang Haiming, the chief economist of the China Silk Road iValley Research Institute, in which the author argued that the AIIB and the Belt and Road Initiative have separate goals and different functions, "the AIIB gives China a pivot in the world, while the B&R initiative is a lever on this pivot, helping China bridge the East and the West."[44] It is worth pointing out that despite the efforts on trying to put some distance between the AIIB and the Belt and Road Initiative, there is still a broad perception that these two are closely related.

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regional countries and non-regional developed countries which are members of the United Nations or of any of its specialized agencies. Moreover, a new member must obtain an affirmative vote of two-thirds of the total number of Governors that represents not less than three-fourths of the total votes. Georgia joined ADB in 2007, and Brunei Darussalam and Ireland joined ADB in 2006. See more details in "Agreement to Establishing the Asian Development Bank" Article 3. The full Agreement can be accessed at https://www.adb.org/sites/default/files/institutional-document/32120/charter.pdf

[41] "AIIB leads support for Belt and Road infrastructure projects," *China Daily,* June 8, 2016. Accessed at http://europe.chinadaily.com.cn/business/2016-06/08/content_25645174.htm

[42] Ibid.

[43] The interview can be accessed at https://www.cnbc.com/video/2017/06/15/aiib-is-not-part-of-chinas-one-belt-one-road-initiative.html

[44] "Separate AIIB, B&R goals complement each other," *Global Times*, March 30, 2017. Accessed at http://www.globaltimes.cn/content/1040405.shtml

A US Congressional Research Service Report on AIIB has noted that China differentiated AIIB projects from its other foreign assistance projects by co-financing its initial projects with the preexisting MDBs.[45] For example, according to a former director of economics at the National Security Council of the US, co-financing, combined with European membership, "will make it more likely this institution largely conforms to the international standards" and potentially will steer the AIIB away from becoming solely a tool of Chinese foreign policy.[46] This supports China's stated intention to complement existing MDBs rather than compete with them. It also means that the AIIB can depend on its partners, if they would allow so, for expertise on a wide range of policy and procedural issues as it develops its lending portfolio.

Between April and May in 2016, the AIIB signed a co-financing framework agreement with the World Bank and three non-binding Memorandum of Understandings with the ADB, the EBRD, and the EIB respectively. In October, 2016, the heads of AIIB and the heads of the IMF and some other MDBs also issued a jointed statement affirming that their operations would be grounded in the latest international agreements on sustainable development (the 2015 Paris Agreement on Climate Change and the United Nations 2030 Agenda for Sustainable Development).[47] As of June 2017, the AIIB has approved 14 projects totaling $2,314 billion in loans to finance projects in several countries across Southeast Asia (Myanmar and Indonesia), South Asia (India, Bangladesh, and Pakistan), Central Asia and Caucasia (Azerbaijan, Tajikistan and Georgia), and Middle East (Oman). Among these approved 14 projects, 11 projects are co-financed with other MDBs and international partners, including the ADB, the EBRD, and the UK Department for International Development. (See Table 5 for an overview of AIIB approved projects, and see Appendix 2 for detailed descriptions.) These not only reflect the general trend of cofinancing and cooperation between the AIIB and other MDBs, but also reveal that the AIIB's current stance to live up to international standards by partnering with existing MDBs.

In 2017, the AIIB aims to approve loans for 10-15 projects worth $2.5 billion.[48] This is a cautious goal perhaps as a consequence of the AIIB's limited human resource capacities at the present stage.

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[45] For this Congressional Research Service Report on AIIB, see Martin A. Weiss, "Asian Infrastructure Investment Bank (AIIB)," accessed at https://fas.org/sgp/crs/row/R44754.pdf The quote is from Zhong Nan and Cai Xiao, "AIIB Leas support for Belt and Road Infrastructure Projects," *China Daily,* June 8, 2016.

[46] Matthew Goodman, quoted in Ian Talley, "U.S. Looks to Work with China-Let Infrastructure Fund," *The Wall Street Journal*, March 22, 2015

[47] "Statement by Multilateral Development Banks: Delivering on the 2030 Agenda," the World Bank press release, October 9, 2016. Accessed at http://www.worldbank.org/en/news/press-release/2016/10/09/delivering-on-the-2030-agenda-statement

[48] "AIIB first year in review: more members, more investment," CGTN.com, January 17, 2017. Accessed at https://news.cgtn.com/news/3d416a4e3267544d/share_p.html

Table 3 Overview of AIIB Approved Projects (As of June 2017)

Sector	Country	Project Name	Total Cost ($million)	Type of finance	AIIB Contribution ($million)
Energy	India	Andhra Pradesh 24x7 – Power For All	$571	Co-finance with WB (IBRD)	$160.00
	Bangladesh	Natural Gas Infrastructure and Efficiency Improvement Project	$453	Co-finance with ADB	$160.00
	Bangladesh	Distribution System Upgrade and Expansion Project	$262.29	Not co-financed with other MDBs	$165.00
	Azerbaijan	Trans Anatolian Natural Gas Pipeline Project (TANAP)	$8,600	Co-financed with the WB	$600.00
	Myanmar	Myingyan Power Plant Project.	NA	Co-financed with the IFC, ADB, and certain commercial lenders	$20.00
	Pakistan	Tarbela 5 Hydropower Extension Project.	$823.50	Co-financed with the WB	$300.00
Sector Subtotal ($million)					$1,405.00
Transportation	Georgia	Batumi Bypass Road Project	$315.20	Co-finance with ADB	$114.00
	Oman	Duqm Port Commercial Terminal and Operational Zone Development Project	$353.33	Not co-financed with other MDBs	$265.00
	Oman	Railway System Preparation Project.	$60	Not co-financed with other MDBs	$36.00
	Pakistan	National Motorway M-4 Project.	$273	Co-financed with UK Department for International Development (DFID)	$100.00
	Tajikistan	Dushanbe-Uzbekistan Border Road Improvement Project.	$105.90	Co-financed with the EBRD	$27.50
Sector Subtotal ($million)					$542.50
Urban	Indonesia	Regional Infrastructure Development Fund Project	$406	Co-financed with WB	$100.00
	Indonesia	National Slum Upgrading Project	$1,743	Co-financed with WB	$216.50

Sector Subtotal ($million)					$316.50
Multi-sector	Indonesia	Dam Operational Improvement and Safety Project Phase II	$300	Co-finance with WB (IBRD)	$50.00
Sector Subtotal ($million)					$50.00
Total ($million)					$2,314.00

3. AIIB: Different Perspectives from China, Participating EU/OECD Members, and the US and Japan

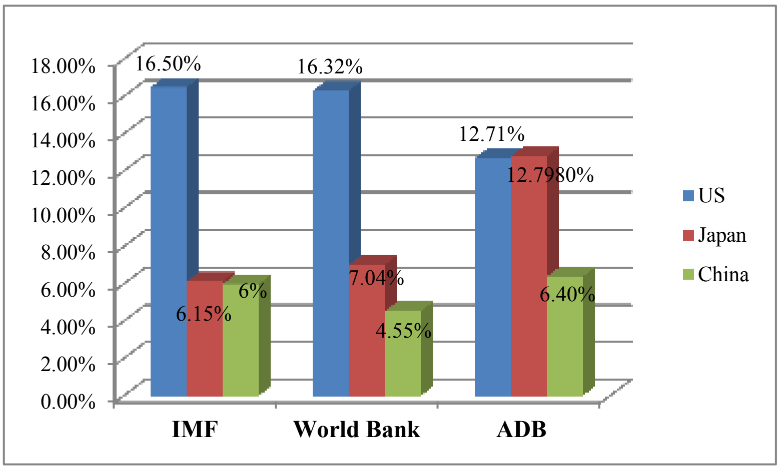
3.1) The China Perspective: Why China Initiates the AIIB

It has been argued by many that the AIIB's establishment not only reflects China's rising economic and financial muscle. More importantly, China initiated the AIIB because of China's frustration over its failed attempts to increase its representation in existing international institutions,[49] particularly after the US Congress deliberately rejected the IMF reform, which if approved could have given China a greater voice in the IMF. Some also pointed out that China views the Trans-Pacific Partnership (TPP) under the Obama Administration as an intentional containment of China.

These arguments are not groundless. Despite that China views itself as a developing country, the Chinese economy has become the second largest in the world and China is regarded as a critical rising power in the international system. However, China's influence in existing international institutions is not commensurate with its economic size. (For example, Figure 5.) Many Chinese opinion leaders and policymakers view the current configuration of international institutions as a monopoly of western developed countries. They argue that China and other developing countries are underrepresented in the existing international institutions. This is the reason why China has been proposing to reform existing international institutions to increase the voice and influence of China and other developing countries in these multilateral institutions. China views the US obstruction of such reform is concrete evidence that these institutions are not "China's" institutions but "Western" institutions. China could not choose to quit them. China was frustrated by this situation and maybe by itself including its internal politics as well. As a result, China decided to establish new multilateral institution like the AIIB, where China can play a key role.

[49] For a discussion about the AIIB and China's changing role in international economic governance, see, for example, Jonathan R. Strand et. al., "China's Leadership in Global Economic Governance and the Creation of the Asian Infrastructure Investment Bank," *Rising Powers Quarterly,* Volume 1, Issue 1, September, 2016. Accessed at http://risingpowersproject.com/quarterly/chinas-leadership-global-economic-governance-creation-asian-infrastructure-investment-bank/

Figure 5 Voting Power of US, Japan and China in the IMF, World Bank and the ADB



Source: the World Bank[50]

Apart from international politics, it has also been pointed out by some Chinese and international observers that China has established the AIIB to export its domestic excess production capacity, to promote RMB internationalization, to facilitate China's Belt and Road Strategy, and to increase China's international influence. It would be very difficult to quantify the weight of each of these factors in China's calculation of establishing the AIIB, but it would be equally difficult to completely dismiss the possible connections.

3.2) The Participating EU/OECD Members' Perspective: Why Joining the AIIB

As of June 2017, 14 out of 28 EU countries are also members of the AIIB.[51] They collectively have 19.6426 percent of the AIIB's total voting power, which is next only to China (voting power 27.5186 percent) (See Table 4). There are also some non-EU Western European countries that have joined AIIB, including Iceland, Norway and Switzerland (See Table 5). The number of AIIB's OECD member, both regional and non-regional, has reached 19. They together have a voting power of 29.3632 percent, which is actually larger than China's voting power (See Table 6). The fact that the AIIB has received wide support from EU/OECD members does not necessarily mean that these countries have no concern or reservation over the young institution. In fact, in November 2016, the European Parliament raised its concern that "so far the AIIB's governance structures do not foresee adequate involvement of shareholders in project financing decisions, and that the publicly available project documentation lacks any detail on the fulfilment of the environmental and social measures that the AIIB requires from its

[50] "International Bank for Reconstruction and Development Subscriptions and Voting power of Member Countries" Accessed at http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDCountryVotingTable.pdf

[51] Of these 14 EU members, UK is included. See note for Table 1.

lenders."[52]

Then, why members of the EU/OECD still queued up to join the AIIB and even became founding members, despite that joining the AIIB is in defiance of US pressure? It is not simply because of their goodwill to help with the institutional building of the young AIIB or prevent the AIIB to become a China-dominated multilateral institution. Rather, it is exactly because they view the AIIB as a major Chinese project and it is believed that giving support to the AIIB would be perceived as supporting China by the Chinese government that they opted in. Many EU/OECD countries considered joining the AIIB would contribute to a better relationship with China, which could possibly result in better trade and investment relationship, and an advantageous position to win AIIB projects and increase their investment in Asia as well.

To put it simply, these countries see potential political economic gains outweigh the risks by joining the AIIB. After all, there are no urgent national security issues that could suddenly disrupt the relationship between China and these participating EU/OECD members. Each of the EU/OECD countries who have signed up for the AIIB may have their own specific cost-benefit calculations, but a shared motivation among them is that they do not doubt that the potential benefits from a stronger relationship with China, the second largest economy in the world, will be greater than whatever the perceived risks are. The fact that Luxembourg, UK, Switzerland, France, Germany and Italy signed up for the AIIB within one week in March 2015 not only reflected the level of sophistication of China's diplomacy and China's influence, but also suggested the perceived commercial advantage by the Europeans. After all, London, Luxembourg, and Frankfurt are among the contenders to host the AIIB's European office. Any city that could win the bid to manage the AIIB's transactions would possibly strengthen its position as a global financial center. This motivation could be particularly strong for the UK and the City of London when the Brits and the EU are in the process of Brexit negotiation.

Table 4 AIIB's EU Members (As of June 29, 2017)

Country	Membership Date	Voting Power (of total)
Austria	Dec 25, 2015	0.7274%
Denmark	Jan 15, 2016	0.6073%
Finland	Jan 07, 2016	0.5531%
France	June 16, 2016	3.3579%
Germany	Dec 25, 2015	4.3723%
Hungary	Jun 16, 2017	0.3058%
Italy	Jul 13, 2016	2.6224%
Luxembourg	Dec 25, 2015	0.3330%

52 European Parliament Committee on International Trade, "Opinion," 2016/2099(INI). Accessed at http://www.europarl.europa.eu/sides/getDoc.do?type=COMPARL&reference=PE-589.330&format=PDF&language=EN&secondRef=03

Malta	Jan 07, 2016	0.2816%
Netherlands	Dec 25, 2015	1.2128%
Poland	Jun 15, 2016	1.0303%
Portugal	Feb 08, 2017	0.3287%
Sweden	Jun 23, 2016	0.8457%
UK*	Dec 25, 2015	3.0643%
Total		19.6426%

Note:*The UK is currently in the process of Brexit negotiation.

Table 5 AIIB's Non-EU Western European Members (As of June 29, 2017)

Country	Membership Date	Voting Power (of total)
Iceland	Mar 04, 2016	0.2853%
Norway	Dec 25, 2015	0.7730%
Switzerland	Apr 25, 2016	0.9156%

Table 6 AIIB's OECD Members (As of June 29, 2017)

	Country	Membership Date	Voting Power (of total)
Regional OECD Member	Australia	Dec 25, 2015	3.6467%
	Korea	Dec 25, 2015	3.6901%
	New Zealand	Dec 25, 2015	0.6915%
Non Regional OECD Member	Austria	Dec 25, 2015	0.7274%
	Denmark	Jan 15, 2016	0.6073%
	Finland	Jan 07, 2016	0.5531%
	France	June 16, 2016	3.3579%
	Germany	Dec 25, 2015	4.3723%
	Hungary	Jun 16, 2017	0.3058%
	Iceland	Mar 04, 2016	0.2853%
	Italy	Jul 13, 2016	2.6224%
	Luxembourg	Dec 25, 2015	0.3330%
	Netherlands	Dec 25, 2015	1.2128%
	Norway	Dec 25, 2015	0.7730%
	Poland	Jun 15, 2016	1.0303%
	Portugal	Feb 08, 2017	0.3287%
	Sweden	Jun 23, 2016	0.8457%
	Switzerland	Apr 25, 2016	0.9156%
	UK	Dec 25, 2015	3.0643%
Total	19 members		29.3632%

3.3) The US and Japan Perspective: Why Suspicious and not joining?

Despite the fact that a significant portion of America's allies have joined the AIIB against the US opposition, the US itself and Japan still hold back on joining the AIIB. The US and Japan are the only two members of the G7 that have not joined the AIIB.

In the case of the US, it is nearly impossible for it to join the AIIB without the approval of the Congress. The US inevitably views the China-initiated AIIB as an unwelcome challenge to the existing international order and the primacy of postwar Bretton Wood System led by the US in particular. The US government worries that China will use the bank to set the global economic agenda on its own terms, forgoing the environmental protections, human rights, anticorruption measures and other governance standards long promoted by its Western counterparts.[53]

For Japan, its leadership role in the ADB, its strained ties with China including but not limited to national security issues, the TPP negotiations, and the pressure from the US not to participate, have all complicated Japan's calculation regarding whether to join the AIIB and when to join. As a result, so far Japan has been taking a cautious position against joining the AIIB. Japan's position comes after some carefully calibrated cost-benefit analysis, not simply because of the strained Sino-Japan bilateral relationship or the US opposition. In fact, the ruling Liberal Democratic Party (LDP) looked into the possible membership in the AIIB in June 2016 before a meeting of Japanese and Chinese finance officials in Beijing. At that time, a panel of ruling LDP lawmakers was tasked with drafting a report on this issue. According to Kenya Akiba, a member of the LDP's panel, the report concluded that "it was a right decision not to become a founding member. The government should closely monitor the situation and deal with it carefully." He said that Japan is "taking the long view and will make judgement only when issues such as governance, debt sustainability and establishment of a permanent board are resolved."[54]

The major argument against the AIIB on the side of US and Japan surrounds the AIIB's governance structure, its transparency, and its observation of existing international norms. The facts that China is the largest shareholder of the AIIB, Beijing hosts the headquarter, and the President is a Chinese national all have given rise to a wide range of concerns that are not completely groundless or irrational. The concerns could be generalized into two categories: firstly, China may dominate the AIIB's operation. This means the AIIB in practice could become a tool for the Chinese government and the Chinese Communist Party to implement its international strategies by funding projects in other countries that best serves China's own strategic interests. Secondly, the AIIB may yield to Chinese political power, subject to

[53] "China Creates a World Bank of Its Own, and the U.S. Balks," *The New York Times*, December 4, 2015. Accessed at https://www.nytimes.com/2015/12/05/business/international/china-creates-an-asian-bank-as-the-us-stands-aloof.html

[54] "Japan Abe's ruling party calls for cautious approach to AIIB," *Reuters*, June 3, 2015. Accessed at

corruption to finance poorly planned projects and/or grant unfair contracts to China's State Owned Enterprises (SOEs).

Additionally, the issue of voting power may have also contributed to US and Japan's hesitation or rejection to join the AIIB. The voting shares are based on the size of the economy of each member country, and each Founding Members get additional 600 Founding Member votes.[55] Also, as mentioned earlier, the AIIB's AOA caps the influence of non-regional members. This has an important implication: even if the US and Japan were to join the AIIB, it is unlikely that these two countries would obtain large enough voting power that is considered as commensurable with their paid-in capital. To put it simply, the US and Japan are unlikely to have enough influence over the AIIB's decision making process. The potential voting power deficit may have disincentivized the US and Japan to join the AIIB.

Table 7 US Japan Voting Power Comparision in ADB, World Bank and the IMF

	Japan's Voting Power	US Voting Power
ADB	12.798%	12.710%
World Bank (IBRD)	7.04%	16.32%
IMF	6.15%	16.52%

4. Challenges for the AIIB Moving Forward: Easy to Grow, but Not Easy to Grow up.

Although AIIB has attracted a great number of developing and developed countries to join as members and it has co-financed several projects with other MDBs, there is no guarantee for any easy success in the future. There are several formidable challenges for the young multilateral institution down the road. For the AIIB, these challenges may become hurdles that make it not that easy for the AIIB to become a fully-fledged multilateral "go-to" bank for infrastructure investment in developing countries in the region and beyond.

- *Create investor-ready bankable projects.* Not all the infrastructure investment needs in Asia is immediately bankable and ready for investors' money. Capital, regardless it's sovereign or private, will not flow in to any project without any proper preparation. President Mr. Jin Liqun noted, "Although Asia faces a huge infrastructure financing gap, there is a shortage of 'shovel-ready' bankable projects owing to the capacity limitations."[56] The young AIIB lacks the talent and expertise to create investor-ready bankable projects, despite that it has

http://www.reuters.com/article/japan-economy-aiib-idUSL3N0YP3O020150603

[55] According to AIIB AOA Article 28, "The total voting power of each member shall consist of the sum of its basic votes, share votes and, in the case of a Founding Member, its Founding Member votes." Also, Article 28 1.3 "Each Founding Member shall be allocated six hundred (600) Founding Member votes."

[56] "AIIB's Board of Directors establish a Project Preparation Special Fund: China provides initial $50 million start-up contribution." AIIB official news release. June 25, 2016. Accessed at https://www.aiib.org/en/news-events/news/2016/20160625_004.html

created a Project Preparation Special Fund thanks to $50 million by China.[57] It is simply too young and too inexperienced. Moving forward, it may face talent recruitment difficulties, especially for job vacancies in Beijing, as world-class professionals may either have other alternative opportunities, or they could be hesitant to work there given concerns over its environmental issues.

- *Make infrastructure profitable to mobilize capital in global capital markets.* The AIIB aims to raise money in global capital markets to invest in the improvement of transregional connectivity. However, infrastructure projects are not naturally attractive investment due to huge uncertainties throughout the entire life cycle as well as unjustified risk-profit balance. Getting a top-notch credit rating is just a start. The AIIB has to find innovative ways to improve the risk-adjusted profitability of its projects. This issue itself has been a big challenge for many MDBs who engage in infrastructure financing for a long time. It is uncertain if the AIIB could outperform the other much more matured MDBs to find a solution to tackle the profitability problem in infrastructure financing.
- *Manage its "perceived" relations with the Chinese government*. Although the AIIB and its President Mr. Jin Liqun have emphasized many times in many different occasions that the AIIB is inclusive, and the bank seeks to observe the best international standard in terms of governance. However, there are still many skeptical voices. The AIIB is a Chinese initiation. Its lion share of initial capital is provided by China. Its headquarter is in Beijing. China bears the largest share of voting power at the country level. For skeptics as represented by the US and Japan, if it looks like a duck, walks like a duck and quacks like a duck, then it's a duck. The AIIB's current structure may easily subject it to being perceived as a strategic tool of the Chinese government to promote its national interests overseas. How to manage such perception will be a challenge for the AIIB going forward. If not managed properly, the perceived heavy hand of China over the AIIB may lead to the impression that the AIIB's governance in practice may deviate from its supposed high standard. This would put the AIIB's top-notch credit rating at risk, because an evaluation of high-standard governance is a non-trivial factor that led to the highest possible credit rating of the AIIB given by Moody, Fitch and S&P.

5. Conclusion

A major take-away of this report is that it is too early to make any informed definitive judgment call regarding the institutional characters of AIIB. As an MDB, the AIIB has only been in operation for a very limited period of time, and is not a full-fledged institution yet. At the current stage, based upon the limited cases of investment that AIIB either co-financed or

[57] Ibid.

financed by itself, the best way to understand AIIB's behavior is to place it along a spectrum with development banks on one extreme, and investment banks on the other extreme. The preliminary feature revealed by the 14 investments (as of June 2017) arguably demonstrates the AIIB is trying to behave more like a for-profit semi-investment bank specializing in infrastructure investments rather than a pure poverty-reduction oriented development bank.

Some non-traditional features of the AIIB, particularly its AIIB nonresident director system combined with China's dominant voting power, have incurred some criticisms regarding AIIB's autonomy and immunity to China's global-wide geopolitical and geoeconomic agenda. Given that AIIB has been in operation for only 19 months, it is premature to judge the nature of the relationship between the AIIB and China's global agenda. It is hopeful that the AIIB's broad membership and shareholder base, especially the high presence of EU and OECD members in the AIIB, could mitigate potential risks associated with China's dominance. This requires the AIIB to develop a strong and resilient institutional structure that could endure political and economic risks.

At the current stage, there is not enough evidence to definitively judge to what extent AIIB's value and behavior depart from traditional MDBs such as the World Bank or ADB. Nevertheless, it is safe to say that the AIIB is far from the World Bank in Asia. The AIIB has different agenda than existing MDBs. Its prime objective is not poverty reduction, but wealth generation. The AIIB aims to "build things that generate a commercial return or upgrade economic efficiency."[58]

Despite a lack of sufficient track record, the AIIB still managed to obtain highest possible credit rating from three international credit rating agencies. The high rating not only endorses the bank's high capital adequacy and robust liquidity position, but also validates the strong political will of AIIB's members and the bank's governance frameworks. A good rating will help the AIIB issue bonds at favorable rate and utilize capital markets to reduce its funding costs. This certainly will contribute to AIIB's efforts to define itself as a for-profit infrastructure investment bank. However, there is no guarantee that the rating will hold forever. Many factors may impact the rating in the future, including but not limited to AIIB's self-capital ratio, liquidity, management, yieldability, risk management ability, and its autonomy and independency from China's influence.

[58] "AIIB chief unveils aim to rival lenders such as ADB and World Bank," *Financial Times*, May 4, 2017.

Appendix 1

Members and Prospective Members of the Bank as of June 2017

	MEMBERS	REGIONAL	NON-REGIONAL	FOUNDING	MEMBERSHIP DATE	TOTAL SUBSCRIPTIONS		VOTING POWER	
						Amount: (million USD)	Percent of Total	Number of Votes	Percent of Total
(Regional Member)									
1	Australia	*		*	2015/12/25	3,691.2	3.97%	39,854	3.65%
2	Azerbaijan	*		*	2016/6/24	254.1	0.27%	5,483	0.50%
3	Bangladesh	*		*	2016/3/22	660.5	0.71%	9,547	0.87%
4	Brunei Darussalam	*		*	2015/12/25	52.4	0.06%	3,466	0.32%
5	Cambodia	*		*	2016/5/17	62.3	0.07%	3,565	0.33%
6	China	*		*	2015/12/25	29,780.4	32.02%	300,746	27.52%
7	Georgia	*		*	2015/12/25	53.9	0.06%	3,481	0.32%
8	Hong Kong, China	*			2017/6/7	765.1	0.82%	9,993	0.91%
9	India	*		*	2016/1/11	8,367.3	9.00%	86,615	7.93%
10	Indonesia	*		*	2016/1/14	3,360.7	3.61%	36,549	3.34%
11	Iran	*		*	2017/1/16	1,580.8	1.70%	18,750	1.72%
12	Israel	*		*	2016/1/15	749.9	0.81%	10,441	0.96%
13	Jordan	*		*	2015/12/25	119.2	0.13%	4,134	0.38%
14	Kazakhstan	*		*	2016/4/18	729.3	0.78%	10,235	0.94%
15	Korea	*		*	2015/12/25	3,738.7	4.02%	40,329	3.69%
16	Kyrgyz Republic	*		*	2016/4/11	26.8	0.03%	3,210	0.29%
17	Lao PDR	*		*	2016/1/15	43.0	0.05%	3,372	0.31%
18	Malaysia	*		*	2017/3/27	109.5	0.12%	4,037	0.37%
19	Maldives	*		*	2016/1/4	7.2	0.01%	3,014	0.28%
20	Mongolia	*		*	2015/12/25	41.1	0.04%	3,353	0.31%
21	Myanmar	*		*	2015/12/25	264.5	0.28%	5,587	0.51%
22	Nepal	*		*	2016/1/13	80.9	0.09%	3,751	0.34%
23	New Zealand	*		*	2015/12/25	461.5	0.50%	7,557	0.69%
24	Oman	*		*	2016/6/21	259.2	0.28%	5,534	0.51%
25	Pakistan	*		*	2015/12/25	1,034.1	1.11%	13,283	1.22%
26	Philippines	*		*	2016/12/28	979.1	1.05%	12,733	1.17%
27	Qatar	*		*	2016/6/24	604.4	0.65%	8,986	0.82%
28	Russia	*		*	2015/12/28	6,536.2	7.03%	68,304	6.25%
29	Saudi Arabia	*		*	2016/2/19	2,544.6	2.74%	28,388	2.60%
30	Singapore	*		*	2015/12/25	250.0	0.27%	5,442	0.50%
31	Sri Lanka	*		*	2016/6/22	269.0	0.29%	5,632	0.52%
32	Tajikistan	*		*	2016/1/16	30.9	0.03%	3,251	0.30%
33	Thailand	*		*	2016/6/20	1,427.5	1.54%	17,217	1.58%
34	Turkey	*		*	2016/1/15	2,609.9	2.81%	29,041	2.66%
35	United Arab Emirates	*		*	2016/1/15	1,185.7	1.28%	14,799	1.35%
36	Uzbekistan	*		*	2016/11/30	219.8	0.24%	5,140	0.47%
37	Vietnam	*		*	2016/4/11	663.3	0.71%	9,575	0.88%
	Total Regional	37		36		73,614.0	79.16%	844,394	77.26%
(Non-Regional Member)									
38	Austria		*	*	2015/12/25	500.8	0.54%	7,950	0.73%
39	Denmark		*	*	2016/1/15	369.5	0.40%	6,637	0.61%
40	Egypt		*	*	2016/8/4	650.5	0.70%	9,447	0.86%
41	Ethiopia		*		2017/5/13	45.8	0.05%	2,800	0.26%
42	Finland		*	*	2016/1/7	310.3	0.33%	6,045	0.55%
43	France		*	*	2016/6/16	3,375.6	3.63%	36,698	3.36%
44	Germany		*	*	2015/12/25	4,484.2	4.82%	47,784	4.37%
45	Hungary		*		2017/6/16	100.0	0.11%	3,342	0.31%
46	Iceland		*	*	2016/3/4	17.6	0.02%	3,118	0.29%
47	Italy		*	*	2016/7/13	2,571.8	2.77%	28,660	2.62%
48	Luxembourg		*	*	2015/12/25	69.7	0.08%	3,639	0.33%
49	Malta		*	*	2016/1/7	13.6	0.01%	3,078	0.28%
50	Netherlands		*	*	2015/12/25	1,031.3	1.11%	13,255	1.21%
51	Norway		*	*	2015/12/25	550.6	0.59%	8,448	0.77%
52	Poland		*	*	2016/6/15	831.8	0.89%	11,260	1.03%
53	Portugal		*	*	2017/2/8	65.0	0.07%	3,592	0.33%
54	Sweden		*	*	2016/6/23	630.0	0.68%	9,242	0.85%
55	Switzerland		*	*	2016/4/25	706.4	0.76%	10,006	0.92%
56	United Kingdom		*	*	2015/12/25	3,054.7	3.28%	33,489	3.06%
	Total Non-Regional		19	17		19,379.2	20.84%	248,490	22.74%
	Total (56 countries)	37	19	53		92,993.2	100.00%	1,092,884	100.00%

(Prospective Member of Regional)									
1	Afghanistan	*							
2	Armenia	*							
3	Bahrain	*							
4	Cyprus	*							
5	Fiji	*							
6	Kuwait	*		*		(536)		(5,360)	
7	Samoa	*							
8	Timor-Leste	*							
9	Tonga	*							
	Sub total	9		1					
(Prospective Member of Non-Regional)									
10	Argentina		*						
11	Belgium		*						
12	Bolivia		*						
13	Brasil		*	*		(3,181)		(31,810)	
14	Canada		*						
15	Chile		*						
16	Greece		*						
17	Ireland		*						
18	Madagascar		*						
19	Peru		*						
20	Romania		*						
21	South Africa		*	*		(590.5)		(5,905)	
22	Spain		*	*		(1,761.5)		(17,615)	
23	Sudan		*						
24	Venezuela		*						
	Sub total		15	3					
	Total	9	15	4					
ALL TOTAL		46	34	57	(80 countries in total)				

Appendix 2

Approved Projects by AIIB as of June 2017

Sector	Project description
Energy	1) India: Andhra Pradesh 24x7 – Power for All. The project is co-financed with the World Bank (WB). The project implementation period is planned to be from December 2017 to December 2019. The total project cost is estimated to be $571 million, of which $160 million will be financed by AIIB, $240 million by World Bank (International Bank for Reconstruction and Development), and $171 million by the Government of Andhra Pradesh.[1] 2) Bangladesh: Natural Gas Infrastructure and Efficiency Improvement Project. The Project will be implemented within 5 years, between January 1, 2017 and December 31, 2021. The Project is estimated to cost $453.0 million, including taxes, duties, contingencies, and financing charges during construction. Loan provided by ADB and AIIB will be used on a pro-rata basis to finance the cost items, with ADB financing 37% ($160 million), AIIB financing 13% ($60 million), and the Bangladesh government financing 50% ($226 million). Any shortfall in the funds required would be covered by either the government or implementing agencies.[2] 3) Azerbaijan: Trans Anatolian Natural Gas Pipeline Project (TANAP) to be co-financed with the WB. The AIIB used the WB's Environmental and Social Safeguard Policies (ESSP) to assess the environmental and social impact of the project. The project is estimated to cost $8.6 billion, with AIIB and WB both being the lead co-financier. AIIB will provide $600 million in loans, WB will provide $800 million in loans, other IFIs (EBRD, EIB) will provide $2100 million in loans, and the rest $3000 million will be raised through other commercial borrowings.[3] 4) Myanmar: Myingyan Power Plant Project. The AIIB will provide $20 million of debt financing for this project in parallel with other lenders

[1] Detailed project information refer to AIIB Project Summary Information (PSI) Report No: 000009. Accessed at https://www.aiib.org/en/projects/approved/2017/_download/India/summary/andhra_pradesh_co-financed_wb.pdf

[2] Detailed project information refer to AIIB Project Summary Information (PSI) Project No: 000015. Accessed at https://www.aiib.org/en/projects/approved/2017/_download/bangladesh/summary/bangladesh-natural-gas-infrastructure_summary.pdf

[3] Detailed project information refer to AIIB Project Summary Information (PSI) Project No: 000011. Accessed at https://www.aiib.org/en/projects/approved/2016/_download/trans-anatolian/summary/approved_project_summary_anatolian_natural_gas_pipeline.pdf

	including the International Finance Corporation (IFC), the Asian Development Bank (ADB) and certain commercial lenders.[4] 5) Pakistan: Tarbela 5 Hydropower Extension Project. The Project is estimated to cost $823.5 million including taxes, duties and financing charges during implementation. WB will provide $390 million, AIIB will provide $300 million, and the Pakistani government will provide $133.5 million.[5] 6) Bangladesh: Distribution System Upgrade and Expansion Project. Total estimated cost is $262.29 million. AIIB approved a loan of $165 million to this project.[6]
Transport	1) Georgia: Batumi Bypass Road Project. AIIB used the ADB's Safeguard Policy Statement (SPS), 2009, to assess the environment and social impact of this project. The Project is estimated to cost $315.2 million. AIIB and ADB each will provide $114 million in loans, and the Georgian government will provide the remaining $87.2 million.[7] 2) Oman: Duqm Port Commercial Terminal and Operational Zone Development Project. The environmental and social impact of this project was evaluated under the provisions of AIIB's Environmental and Social Policy. The project is estimated to cost $353.33 million. AIIB will provide $265.00 million, and the government-established Special Economic Zone Authority of Duqm will provide the remaining $88.33 million.[8] 3) Oman: Railway System Preparation Project. The environmental and social impact of this project was evaluated under AIIB's Environmental and Social Policy. The Project is estimated to cost $60 million. AIIB will provide $36 million, with the remaining $24 million provided by the Oman Global Logistics Group S.A.O.C. [9]

[4] Detailed project information refer to AIIB Project Summary Information (PSI) Project No: 000007. Accessed at https://www.aiib.org/en/projects/approved/2016/_download/myingyan/approved_project_summary_myingyan_gas_turbine.pdf

[5] Detailed project information refer to AIIB Project Summary Information (PSI) Report No: 0005-PAK. Accessed at https://www.aiib.org/en/projects/approved/2016/_download/pakistan-tarbela-5/approved_project_summary_tarbela_5_hydropower_extension.pdf

[6] Detailed project information refer to AIIB summary on "Bangladesh: Distribution System Upgrade and Expansion Project". Accessed at https://www.aiib.org/en/projects/approved/2016/_download/bangladesh/summary/bangladesh_distribution_system_upgrade_and_expansion.pdf

[7] Detailed project information refer to Project Summary Information (PSI) Project No: 000021. Accessed at https://www.aiib.org/en/projects/approved/2017/_download/georgia/summary/Batumi.pdf

[8] Detailed project information refer to Project Summary Information (PSI) Project No: 000013. Assessed at https://www.aiib.org/en/projects/approved/2016/_download/duqm-port-commercial/summary/approved_project_summary_oman_-duqm_port_commercial_terminal.pdf

[9] Detailed project information refer to Project Summary Information (PSI) Project No: 000014. Assessed at https://www.aiib.org/en/projects/approved/2016/_download/oman-railway-system/project-summary/approved_project_summary_oman_railway.pdf

	4) Pakistan: National Motorway M-4 Project. The project's environmental and social impact assessment was conducted following ADB's Safeguard Policy Statement (2009) (ADB SPS). The total project cost is estimated at $273 million. The Islamic Republic of Pakistan has applied for joint financing from the AIIB, ADB, and the UK Department for International Development (DFID) for the project. ADB will be the lead co-financer and will administer the project on behalf of the other co-financers. AIIB approved a loan of $100 million for this project.[10] 5) Tajikistan: Dushanbe-Uzbekistan Border Road Improvement Project. AIIB used EBRD's Environmental and Social Policy (2008) to assess the environmental and social impact of this project. The total project cost is estimated at $105.9 million. Tajikistan has applied for joint financing from AIIB and the European Bank for Reconstruction and Development (EBRD) for the project. EBRD will be the lead co-financer and will administer the project on behalf of AIIB. AIIB approved a loan of $27.5 million for this project.[11]
Urban	1) Indonesia: Regional Infrastructure Development Fund Project. This project is estimated to be implemented during April 2017–December 2020. AIIB used the WB's Environmental and Social Safeguard Policies to assess the environmental and social impact of this project. Total estimated cost of this project is $406 million. AIIB will provide $100 million loans, the WB will provide $100 million loans with additional $3 million grant from Swiss Secretariat for Economic Affairs channeled via WB. The Indonesian government will provide $203 million.[12] 2) Indonesia: National Slum Upgrading Project. Both AIIB and WB are the lead co-financiers of this project. The WB's procurement policy and environmental and social safeguard policies (ESSP) and procedures would be used for the implementation of this project. The project is estimated to cost $1,743 million. AIIB and WB will each provide a loan of $216.5 million for this project. The Indonesian government will provide $1310 million.[13]

[10] For detailed project description refer to "Pakistan: National Motorway M-4 Project." Accessed at https://www.aiib.org/en/projects/approved/2016/pakistan-national-motorway.html#

[11] For detailed project description refer to "Tajikistan: Dushanbe-Uzbekistan Border Road Improvement Project." Accessed at https://www.aiib.org/en/projects/approved/2016/tajikistan-border-road.html

[12] For detailed project description refer to Project Summary Information (PSI) Project No: 000012. Accessed at https://www.aiib.org/en/projects/approved/2017/_download/indonesia/summary/project-summary_information_regional_infrastructure_development_fund.pdf

[13] For detailed project description refer to Project Summary Information (PSI) Report No:0004-IDN. Accessed at

Multi-sector	Indonesia: Dam Operational Improvement and Safety Project Phase II. The WB will be the lead co-financier of the Project and will administer AIIB's loan on behalf of AIIB including procurement, disbursements, environmental and social compliance, and project monitoring and reporting. WB's Environmental and Social Safeguard Policies were adopted to evaluate the environmental and social impact of the project. The estimated cost of the project is $300 million. AIIB and WB (IBRD) each will provide $125 million, and the Indonesian government will provide the remaining $50 million.[14]

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https://www.aiib.org/en/projects/approved/2016/_download/indonesia/summary/approved_project_summary_national_slum_upgrading.pdf

[14] For detailed project description refer to Project Summary Information (PSI) Project No: 000010. Accessed at https://www.aiib.org/en/projects/approved/2017/_download/indonesia/summary/indonesia-dam-operation-summary.pdf