

IDSA

Issue Brief

AIIB Chronicle: China's Ambition Behind Infrastructure Investment

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S*ummary*

The growth trajectory of the Asian Infrastructure Investment Bank (AIIB), which was officially inaugurated in January 2016, has hitherto been impressive. Beijing's main intention has been to position China as the foremost designer of regional and global decision-making processes, especially in infrastructure financing and investment. Beijing's outlook with regard to AIIB is closely associated with the Chinese leadership's ambitions in Asia and beyond. In fact, China's nurturing of the AIIB is driven by a clear linkage between its domestic, regional and global aims and objectives. While AIIB accelerates Beijing's investment campaign and participation in creating infrastructure abroad, the ensuing purpose is to originate a balance between China's domestic economic conditions and regional as well as global objectives.

It is a little more than a year since the Asian Infrastructure Investment Bank (AIIB), China's biggest ever economic institutional initiative according primacy to infrastructure finance, was inaugurated (see Table 1). Formally launched on January 16, 2016 and headquartered in Beijing, AIIB began with a membership of 57 founding member states. Opinion about AIIB's future is euphoric. AIIB's first President, Jin Liqun, has said that the bank has a "strong pipeline of projects in the year 2017."¹ And he expects the bank to induct new members, including, possibly, the United States.² This positive outlook is comforting for many countries that are still waiting to become members of the AIIB. However, it is to be seen as to what extent this optimistic view corresponds with the Chinese perspective in executing the strategic ambitions of China since Beijing remains the main architect of the bank led as it is by Jin Liqun, China's former Vice-Minister of Finance and a leading Chinese economist.

This Issue Brief reviews the progress of AIIB since its creation and highlights the current and future Chinese perspectives and policies related to the bank. It will first analyse AIIB's emergence, China's prospective planning to promote the 'belt & road' initiative while concurrently making a statement that AIIB is an institution that is open for collaboration with other international financial institutions. The Brief will then identify China's ambitions attached with the bank and analyse how Beijing plans to control AIIB in the future.

Table 1: Evolution of AIIB

Date	Major Development/Progress
October 2013	President Xi Jinping proposed the establishment of AIIB during his address to the Indonesian House of Representatives in Jakarta
October 2014	MoUs signed among 22 Asian countries on establishing AIIB
June 2015	50 prospective founding members signed the Articles of Agreement of AIIB
December 2015	Legal Enforcement of the Articles of Agreement
January 2016	Inaugural ceremony of AIIB in Beijing

Source: "Backgrounder: The AIIB", *Xinhua*, January 16, 2016, at [http://www.china.org.cn/china/Off the Wire/2016-01/16/content_37592463.htm](http://www.china.org.cn/china/Off%20the%20Wire/2016-01/16/content_37592463.htm) (accessed on March 1, 2017).

¹ "AIIB unveils 2017 priorities", *Xinhua*, January 16, 2017, at http://news.xinhuanet.com/english/2017-01/16/c_135987443.htm (accessed on January 20, 2017).

² "AIIB President Jin: Door will remain open for US to join", *China Daily*, January 16, 2017, at http://usa.chinadaily.com.cn/epaper/2017-01/16/content_27968917.htm (accessed on January 19, 2017).

Emergence of AIIB

Although originally conceived of as an institution from Asia, as its name suggests, AIIB has expanded its mandate to involve non-Asian countries as well. Out of its 57 founding members, 20 are non-Asian members,³ including five members from the G-8 and three permanent members of the UNSC, besides China (see Map-1). The United States preferred not to join the AIIB, mainly because the bank, in its view, did not aspire to meet global norms and standards, particularly environmental protection guidelines. Further, the United States even cautioned many Western countries that they should examine the bank's governance process before deciding to become members.⁴ Japan too did not join, mentioning concerns over the lack of transparency in AIIB's functioning and the control exercised by the Chinese government.⁵ In a way, the non-participation of the United States and Japan has allowed Beijing to play a predominant role in shaping the AIIB and portraying to the world China's arrival as a key designer of global infrastructure finance. Besides, what actually motivated China to promote the AIIB as a global bank, and not simply as an Asian bank as originally envisaged, is the endorsement of leading European countries like the United Kingdom, Germany and France. The decision of these leading European countries to become members made AIIB secure the tag of being a truly global institution, signifying that global financial power is rapidly moving eastward with China forming the core. The year 2017 may witness the inclusion of 25 more members in AIIB.⁶ That will further strengthen the global image of the bank and with that the advantages accruing to China.

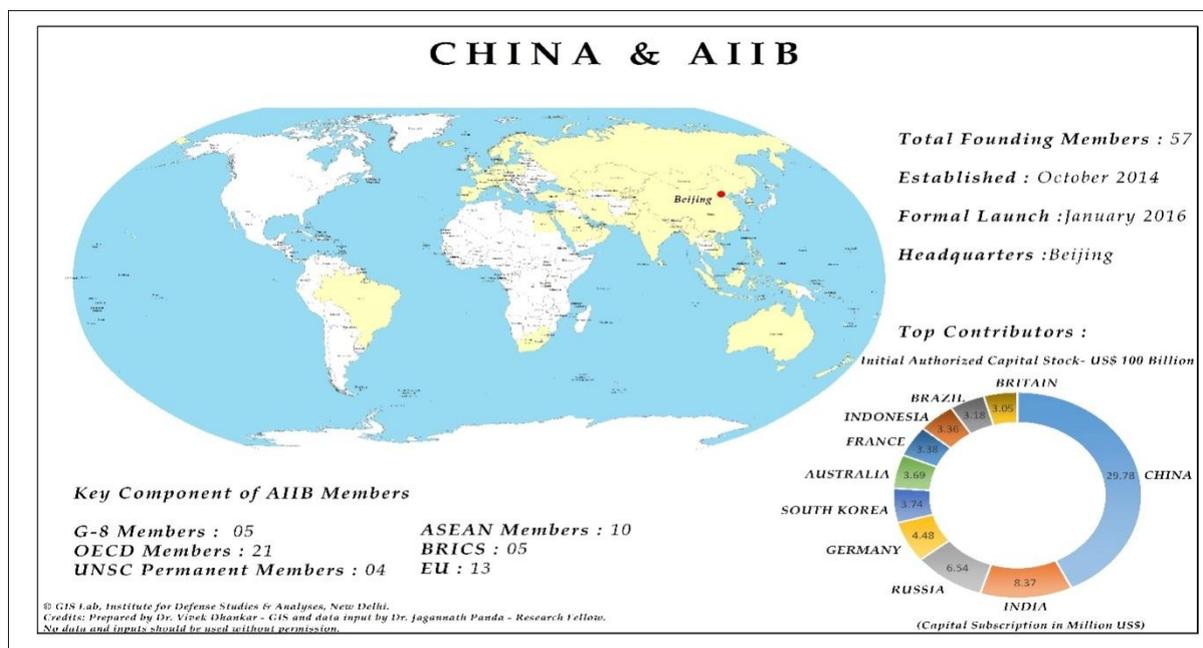
³ *Articles of Agreement: Asian Infrastructure Investment Bank*, Schedule A, pp. 29-30.

⁴ Matthias Sobolewski and Jason Lange, "U.S. urges allies to think twice before joining China-led bank", Reuters, March 17, 2015, at <http://www.reuters.com/article/us-europe-asia-bank-idUSKBN0MDOB320150317> (accessed on March 16, 2017).

⁵ Sentaku Magazine, "Why Japan won't join the AIIB", *The Japan Times*, April 20, 2015, at <http://www.japantimes.co.jp/opinion/2015/04/20/commentary/japan-commentary/japan-wont-join-aiib/> (accessed on March 1, 2017). "Japan says not bound by deadline to join AIIB, and not yet decided", Reuters, March 31, 2015, at <http://www.reuters.com/article/us-asia-aiib-japan-idUSKBN0MR11320150331> (accessed on March 1, 2017).

⁶ Janne Suokas, "AIIB to add 25 new member countries in 2017", *Global Times*, January 24, 2017, at <http://gbtimes.com/business/aiib-add-25-new-member-countries-2017> (accessed on March 16, 2017).

Map 1



(Source: GIS Lab, IDSA)

As of January 2017, AIIB has approved nine infrastructural projects, totalling an investment of USD 1.7 billion, to develop green infrastructure, maritime infrastructure, and connectivity infrastructure focused on roads and power plants.⁷ Contracts have been offered and the projects are being executed with different sets of guidelines in countries such as Tajikistan, Pakistan, Bangladesh, Indonesia, Myanmar, Azerbaijan and Oman.⁸ Most of these are cross-border projects, and primarily focus on building roads and energy pipelines. Some are co-financed by the World Bank, Asian Development Bank (ADB) and European Bank for Reconstruction and Development (EBRD) (see Table 2).

Table 2: AIIB-financed Project Details (Till January 2017)

Project/Approval or Execution Date	Location /Country	Sector	Project Details	Finance Details	Operational Future Plan

⁷ Chen Qingqing, "AIIB's first year shows efficiency", *Global Times*, January 17, 2017, at <http://www.globaltimes.cn/content/1029153.shtml> (accessed on January 23, 2017); also see, Wade Shepard, "The AIIB One Year In: Not As Scary As Washington Thought", *Forbes*, January 16, 2017, at <http://www.forbes.com/sites/wadeshepard/2017/01/16/the-aiib-one-year-in-not-as-scary-as-washington-thought/#4037ae6540fa> (accessed on January 23, 2017).

⁸ "AIIB celebrates its first anniversary; Launches its 2017 agenda", *Asian Infrastructure Investment Bank*, Beijing, January 16, 2017, at http://www.aiib.org/en/news-events/news/2017/20170116_001.html (accessed on February 22, 2017).

Trans Anatolian Natural Gas Pipeline Project (TANAP); December 21, 2016	Turkey is the Host Country of the Project; Located in Azerbaijan	Energy (Oil & Gas)	AIIB will co-finance with the World Bank, EBRD, European Investment Bank (EIB), etc.	Total Cost of the Project is USD 8.6 billion	This project will transport natural gas from Caspian Sea (Shah Deniz 2 field) in Azerbaijan across Turkey to Europe
Duqm Port Commercial Terminal and Operational Zone Development Project; December 8, 2016	Special Economic Zone Authority Duqm (SEZAD) will execute the project; Oman is the host country	Transport	AIIB will co-finance with SEZAD	Total cost of the project is USD 353.33 million	Project includes civil works for port construction activities, roads, cargo storage, terminal building plans and operational zone facilities, etc.
Sultanate of Oman Railway System Preparation Project; December 8, 2016	Oman Global Logistics Group SAOC (OGLG) is the Borrower of the project while Oman Rail remains the implementing agency	Transport / Railway	AIIB will co-finance with OGLG	Total cost of the project USD 60 million	Construction of a new railway system that will support the Sultanate of Oman with the diversification of the economy
Myingyan Power Plant Project; September 27, 2016	Located in Taungtha, a township of Myingyan District in Mandalay Division, Myanmar	Energy	AIIB will be financing parallel with International Finance Corporation (IFC) and Asian Development Bank (ADB)	Total amount is not known; AIIB is considering to provide USD 20 million	225 MW Combined Cycle Gas Turbine (CCGT) power plant

Tarbela 5 Hydropower Extension Project; September 27, 2016	Installation of a power house at the fifth tunnel (Tunnel 5) of the Tarbela Dam, Pakistan	Hydropower, Energy	AIIB will co-finance with World Bank	USD 823.5 million	Project will facilitate the sustainable expansion of Pakistan's electricity generation capacity
National Slum Upgrading Project; September 27, 2016	Targeted slums in Indonesia; Implementing Agency is Ministry of Public Works and Housing, Government of Indonesia	Social Services, Urban Transport, Solid Waste Management	AIIB and Co-financed by World Bank	Total Cost USD 1,743 million	Access to urban infrastructure and services in selected slums in Indonesia
National Motorway M-4 Project; June 24, 2016	64 km four-lane section of motorway linking Shorkot to Khanewal in Punjab, Pakistan	Transport	ADB is the main co-financer along with AIIB and DFID	Total Cost is estimated at USD 273 million	Will provide faster, safer and cost-effective north-south route for Pakistan's economic development
Distribution System Upgrade and Expansion Project; Approved on June 24, 2016	Expand electricity coverage in rural areas and upgrade grid substations in Northern Dhaka; Bangladesh	Energy	AIIB	USD 165 million	Will enhance power distribution capacity and increase the number of rural and urban electricity consumers in Bangladesh
Dushanbe-Uzbekistan Border Road Improvement Project; Approved on June 24, 2016	Ministry of Transportation of Tajikistan will be the executing agency	Transport	AIIB and EBRD	Total project cost is USD 105.9 million	Aimed at enhancing connectivity primarily in the Tajikistan section of the Central Asia Regional Economic

					Cooperation Corridor
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Source: Asian Infrastructure Investment Bank, at <https://www.aiib.org/en/index.html>; Chen Qingqing, “AIIB’s first year shows efficiency”, *Global Times*, January 17, 2017, at <http://www.globaltimes.cn/content/1029153.shtml> (accessed on January 23, 2017).

Notably, drawing on its short experience, the AIIB has launched “2017 strategic priorities” in three main areas: (i) sustainable infrastructure, (ii) cross-country connectivity, and (iii) mobilising private capital. On sustainable infrastructure, the thrust is on environmental protection, while on cross-border connectivity the emphasis would be on constructing roads, railway projects, ports and energy pipelines, and telecommunication links. In order to execute these cross-border infrastructure projects, the bank will not only aim to mobilise private capital but also partner with other multilateral development banks (MDBs) for the purpose of co-financing them. The plan is to promote AIIB as a platform for international collaboration through both public and private modes.

A review of AIIB’s signed contracts and priority areas further reveals that the bank is systematically promoting China’s economic interests in Asia and beyond, and principally the ‘One Belt, One Road’ (OBOR) initiative. For instance, AIIB planned projects are aimed to be implemented across Asia where the focus is on Central Asia for cross-border connectivity projects and on other parts of Asia such as Southeast Asia, South Asia, Middle East and beyond for maritime projects. These projects will ultimately complement Beijing’s Silk Road Economic Belt (SREB) and Maritime Silk Road (MSR), the two core aspects of OBOR. ‘One Belt’, which supplements SREB, implies land corridor connectivity from China to Central Asia and thence to West Asia and Europe; whereas ‘One Road’ supplements MSR, implying maritime connectivity through the Strait of Malacca to the Indian Ocean, and further on towards West Asia and East Africa. This was actually foreseen when President Xi Jinping articulated, during his visit to Indonesia in October 2013, the thought that the proposed AIIB could play an important role in OBOR. In his speech to the Indonesian Parliament, Xi said that AIIB would offer priority to the infrastructural needs of ASEAN members and also seek to revive the ancient Maritime Silk Road (MSR) between China and South-East Asia.⁹ Since then, the strategic communities in China have continuously equated the progress of AIIB with the progress of the OBOR initiative.¹⁰ Given this, it is necessary to see as to what extent the AIIB helps

⁹ Speech by Chinese President Xi Jinping to Indonesian Parliament, ASEAN-China Centre, October 2, 2013, Jakarta, Indonesia, at http://www.asean-china-center.org/english/2013-10/03/c_133062675.htm (accessed on January 20, 2016).

¹⁰ For example, see Xu Qiyuan, “The AIIB’s Concept for Development and Financing: Putting Global Value Chains to the Fore”, *China International Studies*, no.54, September-October 2015, pp. 61-66.

China achieve its intended objectives including with respect to the 'belt & road' initiative.

Promotion of OBOR

Most of AIIB's signed contract projects are strategic in nature, complementing OBOR initiatives.¹¹ For instance, the National Motorway M-4 Gojra-Shorkot Section Project supplements the China-Pakistan Economic Corridor (CPEC). ADB is the main co-financer of this project along with AIIB and the UK's DfID (Department for International Development). The 62 km-long motorway will connect Gojra and Shorkot in Punjab province and will further facilitate north-south connectivity.¹² It is projected to be completed in three years.¹³ Strategically, it assists China in gaining better access to the Gwadar port.¹⁴

Likewise, the Trans Anatolian Natural Gas Pipeline project (TANAP) will be co-financed by AIIB along with the World Bank, EBRD and EIB (European Investment Bank). This project will transport natural gas from Azerbaijan's Shah Deniz-2 gas field as well as from other Caspian Sea ports to Turkey and Europe.¹⁵ In a way, this supplements China's outreach to Turkey and Europe. The TANAP project, which is expected to be operational by 2018, is linked with the Baku-Tbilisi-Kars railway, which aims to connect China with Europe.¹⁶ AIIB finance to Azerbaijan will also eventually benefit the China-Central Asia-West Asia economic corridor, which is an important part of the Silk Road Economic Belt (SREB) project.¹⁷

Two important projects that are appendages to OBOR are also being financed, one in South Asia and the other in South-East Asia. These are: the Myingyan Power Plant project in Myanmar, and the Power Distribution System Upgrade and Expansion project in Bangladesh. AIIB has chosen to focus on South-East Asia and South Asia in the year 2017 as part of China's regional outreach. During his visit to Bangladesh

¹¹ Sara Hsu, "How China's Asian Infrastructure Investment Bank Fared Its First Year", *Forbes*, January 14, 2017, at <http://www.forbes.com/sites/sarahsu/2017/01/14/how-chinas-asian-infrastructure-investment-bank-fared-its-first-year/#43b2eec2f4d1> (accessed on February 23, 2017).

¹² "Pakistan: National Motorway M-4 Gojra-Shorkot Section Project", ADB, at <https://www.adb.org/projects/48402-001/main#project-pds> (accessed on February 23, 2017).

¹³ "Pakistan Motorways under construction projects of CPEC", *The Times of Islamabad*, September 24, 2016, at <https://timesofislamabad.com/pakistan-motorways-construction-projects-cpec/2016/09/24/> (accessed on February 23, 2017).

¹⁴ Hsu, "How China's Asian Infrastructure Investment Bank Fared in Its First Year", n. 11.

¹⁵ For details, see <http://www.tanap.com/tanap-project/why-tanap/> (accessed on February 23, 2017).

¹⁶ "TANAP pipeline project ahead of schedule: Turkish envoy", *Hurriet Daily*, January 25, 2017, at <http://www.hurriyetdailynews.com/tanap-pipeline-project-ahead-of-schedule-turkish-envoy-.aspx?pageID=238&nID=108961&NewsCatID=348> (accessed on February 23, 2017).

¹⁷ Hsu, "How China's Asian Infrastructure Investment Bank Fared Its First Year", n. 11.

in October 2016, President Xi reportedly assured the Bangladesh government that AIIB along with domestic Chinese banks would be key sources for Bangladesh's economic development.¹⁸ The Bangladesh project is exclusively funded by AIIB. The Myingyan project in Myanmar is co-financed by AIIB, IFC and ADB. Both Myanmar and Bangladesh are part of the Bangladesh-China-India-Myanmar economic corridor (BCIM-EC), which, for China, is an important part of OBOR. The document, *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, issued in March 2015 by China's National Development and Reform Commission (NDRC), underlines that BCIM-EC along with CPEC are two important corridors of OBOR.¹⁹

In addition, AIIB is also co-financing a national slum upgradation project in Indonesia along with the World Bank. Outside Asia, two important transport projects are being carried out in Oman in which AIIB will be co-financer. Overall, out of the nine contracted projects (see Table 2), eight are co-financed by other development banks or agencies like World Bank, EBRD, ADB, IFC and DfID. This has helped China to contend that AIIB is not a rival institution to the World Bank as characterised by many in the West. For instance, *The Economist* referred to AIIB as a new "world bank" of Asia.²⁰ On the contrary, Xi Jinping had stated expressly that AIIB's aim was to "add strength to the existing multilateral banks."²¹ And China has carefully depicted the AIIB as an institution that is necessary to address the infrastructural gap that Asia faces. This messaging has been carried out smartly with the concurrent promotion of China's 'belt & road' initiative. In fact, the 'silk road' concept of the OBOR, which involves both the SREB and the MSR, has a hoary ancestry in Chinese foreign policy planning. Beijing has used the idea of the 'silk road' concept traditionally to expand its overseas business. The AIIB would increasingly be furthering that now.

Behind Infrastructure Investment

China's objectives within AIIB is closely associated with its leadership outlook in Asia. For the last two decades, the Chinese leadership has been involved in deliberations not only on how to design an effective Asia policy but also on how to

¹⁸ Donald J. Lewis, "President Xi advances OBOR in Bangladesh", *China Daily*, October 16, 2016, at http://www.chinadaily.com.cn/opinion/2016-10/16/content_27076642.htm (accessed on February 23, 2017).

¹⁹ *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road* (March 28, 2015), National Development and Reform Commission (NDRC), Ministry of Foreign Affairs, Ministry of Commerce of the People's Republic of China (PRC), and State Council, China, March 2015, at http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml (accessed on February 23, 2017).

²⁰ See "Why China is creating a new 'World Bank' of Asia", *The Economist*, November 11, 2014, at <http://www.economist.com/blogs/economist-explains/2014/11/economist-explains-6> (accessed on January 20, 2017); *The Telegraph*, "China establishes rival to World Bank", *Telegraph*, December 25, 2015, at <http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/12069026/China-establishes-rival-to-World-Bank.html> (accessed on January 24, 2017).

²¹ "Full text of Chinese President Xi Jinping's address ceremony", *Xinhuanet*, January 16, 2016, at http://news.xinhuanet.com/english/china/2016-01/16/c_135015661.htm (accessed on January 19, 2017).

stamp China's authority as an influential power that will eventually enhance its global authority. This is exemplified by the formal inauguration of the Boao Forum for Asia (BFA) in February 2001 as well as by the establishment of the Shanghai Five in 1996 and then the Shanghai Cooperation Organisation (SCO) in 2001 (which is on the verge of further expansion now). BFA headquarters is located in Boao in Hainan province, and SCO's permanent secretariat in Beijing – locations that have helped China influence the strategic functioning of these institutions.

AIIB offers China a similar opportunity to replicate a leadership role in Asia as an economic power. Most AIIB members are less developed Asian countries.²² Xi Jinping had stated in his opening remarks that AIIB would not only be committed to “open regionalism”, but would also correspondingly raise the standard of infrastructure financing in Asia.²³ With China emerging as the most influential power in Asia, it wants to limit the influence of ADB in which Japan remains the predominant power. Beijing has taken serious note of Japanese Prime Minister Shinzo Abe's promotion of “high-quality” infrastructure across Asia, an initiative in which ADB is likely to play a leading role in financing projects. Therefore, the Chinese leadership is promoting the AIIB not only to limit the influence of ADB but also to side-line Japan's role in Asia in financing and building infrastructure. Expert opinion in China echoes similar sentiments by viewing Japan's “Expanded Partnership for Quality Infrastructure” in a competing perspective.²⁴

From China's domestic point of view, AIIB and the OBOR initiative are well thought out steps. China had for long anticipated an eventual slowdown in its economy, which actually started in 2012. This “new normal” period, in the view of Chinese officials, is cyclical as well as structural in nature.²⁵ The Chinese leadership consequently stressed that the focus of the Chinese economy must be on fostering “tertiary industry, consumption demand, and innovation.”²⁶ The idea of establishing AIIB is partly a consequence of this thought process. Internally, AIIB supports Beijing's banking policy to finance overseas investment projects. Through AIIB, Chinese companies get an international platform to globalise themselves. AIIB's outbound investments will help Beijing overcome domestic inefficiency. China has surplus capacity in key sectors like solar energy, cement, steel and construction. AIIB will help Beijing export these surplus volumes to generate revenue and further strengthen the overseas market share of the state-owned enterprises (SOEs). Importantly, AIIB complements China's OBOR initiative, particularly the 21st Century Silk Road Fund, as well as the New Development Bank (NDB) of BRICS, by

²² Yun Sun, “How the international community changed China's Asian Infrastructure Investment Bank”, *The Diplomat*, July 31, 2015, at <http://thediplomat.com/2015/07/how-the-international-community-changed-chinas-asian-infrastructure-investment-bank/> (accessed on January 24, 2017).

²³ “Full text of Chinese President Xi Jinping's address ceremony”, n. 21.

²⁴ For instance, see, Xu Qiyuan, “The AIIB's concept for development and financing: putting global value Chains to the fore”, *China International Studies*, no. 54, September-October 2015, p. 62.

²⁵ Zha Daojiong, “China's economic diplomacy: focusing on the Asia-Pacific region”, *China Quarterly of International Strategic Studies*, 1(1), 2015, pp. 89-90.

²⁶ *Ibid.*, p. 90.

focusing on infrastructure development and finance.²⁷ This also helps Beijing, where the AIIB headquarters is located, and Shanghai, where the NDB's headquarters is located, emerge as the epicentre of the new global economic order.

Internationally, China's effort to establish AIIB should not necessarily be seen in isolation. Beijing has largely remained dissatisfied with the existing international financial institutions, primarily the World Bank and ADB. In fact, part of China's reason for establishing the AIIB was its difficult experience in enhancing financial stakes and increasing voting shares in these institutions. China joined the World Bank in 1980, and the ADB in 1986. Over a period of time, it emerged as the largest borrower from these two institutions. However, China is still not an influential power in both these institutions due to its low voting share. Beijing has long demanded an increase in its voting share in the World Bank. Only in 2010 was its voting share in the World Bank increased from 2.27 to 4.42 per cent, and that helped Beijing emerge with the third largest voting share after the United States and Japan.²⁸ Importantly, to China's dissatisfaction, the President of the World Bank has always been either a citizen of the United States or been backed by the United States. Likewise, in the ADB, Beijing today has emerged as the largest shareholder borrower, but its voting share remains insignificant as compared to the United States and Japan.²⁹ In ADB, Japan has more voting share than China³⁰ and the ADB's President has always remained a Japanese. These have troubled the Chinese all these years. In addition to all these, in 1985, China became a member of the Africa Development Bank (AfDB), sought membership in the International Development Bank (IDB) in 2008, and in the European Bank for Reconstruction and Development (EBRD) in 2015. To China's dissatisfaction, its shareholding in these institutions are also limited.³¹

The Chinese rationale for AIIB is fundamentally based on the fact that the World Bank and ADB have limited outreach for fulfilling Asia's infrastructural need. In

²⁷ Chi Lo, "AIIB outbound investment agenda is key to China's economic rebalancing", *South China Morning Post*, May 19, 2015, at <http://www.scmp.com/comment/insight-opinion/article/1802993/aiib-outbound-investment-agenda-key-chinas-economic> (accessed on January 25, 2017).

²⁸ As per the World Bank guidelines, "Member countries are allocated votes at the time of membership and subsequently for additional subscriptions to capital. Votes are allocated differently in each organization" such as International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), International Development Association (IDA) and Multilateral Investment Guarantee Agency (MIGA) etc. See, "Voting Powers", *The World Bank*, at <http://www.worldbank.org/en/about/leadership/votingpowers> (accessed on March 17, 2017).

²⁹ "Shareholders", *Asian Development Bank*, at <https://www.adb.org/site/investors/credit-fundamentals/shareholders> (accessed on March 18, 2017).

³⁰ In ADB, Japan remain a 'non-borrowing share holder' whereas China remains a 'borrowing share holder'. By December 31, 2015, the gap between Japan and China on voting share was substantial with Japan holding the largest shareholding at 15.6 per cent in contrast to China's share of 6.5 per cent.

³¹ China has tried to use its influence in these institutions by creating separate trust funds. Offering attractive trust funds has been a convenient strategy for China to establish direct bilateral contacts with the countries looking for infrastructure finance. See Scott Morris, "Responding to AIIB: U.S. leadership at the multilateral development banks in a new era", *Council on Foreign Relations*, New York, 2016, pp. 8-10.

other words, developing countries have insufficient access to funds and resources in global financial institutions for advancing their infrastructural needs. Hence, the region needs an exclusive institution for financing infrastructure projects.³² In addition, the representation and voting rights of the developing economies in the existing international financial institutions remain limited.³³ These contentions are genuine. Be that as it may, for the Chinese leadership, the original aim of establishing AIIB is to influence the rules of global development finance and enable China as an emerging economic power to perform a leading role in both the regional and global financial architecture. Besides, a careful reading of the trajectory of AIIB's establishment and progress, under the direction of Beijing, suggests that the establishment of the bank was certainly a political project for China. The idea to establish AIIB was an ambitious endeavour to guide the global financial system and economic governance with Beijing having a much stronger role in the financial decision-making process than before. In order to achieve that, China has carefully designed an institution that depicts an alternative mode of representation to the existing financial institutions, while continuing its engagement with them in co-financing schemes. In fact, the positioning of AIIB has been synchronised with the formation of the New Development Bank (NDB) of BRICS and China's opting to join the European Bank for Reconstruction and Development (EBRD). Beijing became the 67th shareholder member of EBRD in December 2015, at which point an understanding was reached between AIIB and EBRD to work on joint investment proposals and infrastructural development projects from Central Asia to Eastern Europe and North Africa.³⁴ This helped China to ascertain internationally that AIIB is not an Asia-specific institution and open for global project collaboration and co-financing in infrastructure building.

Controlling the Future Course

The debate on the government's control and influence over the economy and functioning of institutions is an old subject in China.³⁵ This is reflected in AIIB's functioning too. Former Chinese Finance Minister Lou Jiwei was appointed as the first Chairman of the AIIB council. Jin Liqun, the former Vice-Minister of Finance of the PRC, became AIIB's first President. This speaks volumes about China's influence in AIIB. Jin Liqun was earlier an economist with the World Bank and ADB and has

³² Zha Daojiong, "China's Economic Diplomacy: Focusing on the Asia-Pacific Region", *China Quarterly of International Strategic Studies*, Vol.1, No.1, 2015, p. 101.

³³ Yuriko Koike, "What is China's strategy with the AIIB?", *World Economic Forum*, Thursday, 28 May 2015, at <https://www.weforum.org/agenda/2015/05/what-is-chinas-strategy-with-the-aiib/> (accessed on January 24, 2016).

³⁴ Anthony Williams, "EBRD approves China membership application", *European Bank for Reconstruction and Development*, December 14, 2015, at <http://www.ebrd.com/news/2015/ebrd-approves-china-membership-application.html> (accessed on February 23, 2017).

³⁵ Experts argue that "money and finance cannot be separated from politics". Ancient China offers many examples of how the Chinese government played an influencing role in shaping the economy. See Andrew Shen, "Debate over government's role in economy actually began in ancient China", *Caixin*, February 22, 2017, at <http://www.caixinglobal.com/2017-02-22/101058007.html> (accessed on February 23, 2017).

played an influential role in shaping AIIB's co-financing initiatives with the World Bank, EBRD and ADB. In fact, AIIB has two features which distinguish it from many other international financial institutions, and also allow China to gain confidence internationally. One, it does not have a permanent board of directors. And two, in contrast to the existing international banks, AIIB has a flexible investment model. These features make AIIB a hassle-free non-bureaucratic institution. Many – especially Japanese – however see these as potential weaknesses of the bank, which offer an advantage to China to influence the decision-making process.³⁶

China has been particular about influencing the decision-making process in AIIB since the very beginning. In fact, Beijing's clout in AIIB was amply demonstrated when it blocked Taiwan's entry into the bank. Taiwan made a bid to become a founding member of AIIB in March 2015 when negotiations for the bank's charter were unfolding. Jin Liqun has stated that Taiwan was denied membership because it "is not a sovereign state" and was only eligible to apply for membership through China's Ministry of Finance. He also said that Taiwan's membership in AIIB was a "family matter". Further, Jin Liqun encouraged Taiwan to follow the Hong Kong model to apply for AIIB membership. Hong Kong is yet to be admitted to AIIB, but its application has been channelled through the PRC's Ministry of Finance. Taiwan, in response, has stated that it would not like to be an AIIB member if not treated with "dignity" and "equality".³⁷ Article 3(3) of AIIB's *Articles of Agreement* states: "In the case of an applicant which is not sovereign or not responsible for the conduct of its relations, application for membership in the Bank shall be presented or agreed by the member of the Bank responsible for its international relations."³⁸ Beijing has stated that Taiwan's application will only be accepted under an "appropriate name". This explains how the AIIB agreement was influenced and skilfully drafted under Chinese direction from the beginning. Beijing had not ignored to assert its sovereignty over Taiwan even in the making of this institution.

Besides, Beijing is cautious about future memberships in the bank, particularly of the United States and Japan. These are the two G-7 countries that have so far not joined AIIB. China viewed the American decision as an effort to undermine China's contribution to global finance.³⁹ Nevertheless, Jin Liqun has stated in a recent interview that the door remains open for the United States to join the bank, since many officials in the Obama administration had an appreciation for the AIIB's

³⁶ Tetsushi Kajimoto and Takashi Umekawa, "Japan says not bound by deadline to join AIIB, and not yet decided", *Reuters*, March 31, 2015, at <http://www.reuters.com/article/us-asia-aii-japan-idUSKBN0MR11320150331> (accessed on March 1, 2017).

³⁷ "Government gives up AIIB application for 'dignity'", *Taipei Times*, April 13, 2016, at <http://www.taipetimes.com/News/front/print/2016/04/13/2003643828> (accessed on February 28, 2017).

³⁸ *Articles of Agreement: Asian Infrastructure Investment Bank*, Schedule A, p. 3.

³⁹ Harvey Dzodin, "AIIB could be US option", *China Daily*, November 22, 2016, at http://www.chinadaily.com.cn/opinion/2016-11/22/content_27456900.htm (accessed on February 28, 2017).

functions.⁴⁰ The discussion still continues in Washington on the matter even after the arrival of the Donald Trump administration. James Woolsey, a former CIA director and former advisor to Donald Trump, has called the US decision not to join AIIB during the Obama administration a “strategic mistake”.⁴¹ While the US debate continues, what is important to note here is that if any new members are to be admitted to AIIB, they will only be included under the general membership category, and not as founding members. Founding Members have more privileges in deciding the election procedures of directors. They also enjoy certain advantages in voting power. This will allow China, which holds the largest voting share in AIIB, to veto contentious projects or issues. Even though Jin Liqun has assured publicly that China would not like to use the veto and that its voting power would be reduced further when new members join AIIB, since the bank retains a “fixed” special majority of category on voting,⁴² his assertion is open to scepticism. Contributing to this scepticism is the fact that Russia, China’s strategic ally, holds the third-largest voting share within AIIB, after India. A combined China-Russia verdict can veto any decisions in AIIB. Besides, given China’s clout within and outside the bank as a strong economy, many smaller and middle economies may support China’s position rather than oppose it. This has obvious implications for a country like India which is the second largest voting share holder within the AIIB.

India’s participation in the AIIB as a founding member undoubtedly clarified New Delhi’s open approach to the bank as well as its determination not to be left out of this newly established development bank with its special focus on infrastructure investment. India was one of the first countries to agree to join AIIB, which was a striking reference for many countries that were initially hesitant to join the bank. Today, India is seeking project finance from the bank and AIIB is already considering investment in the Amaravati Capital City for sustainable urban services and capacity building in urban areas.⁴³ A final decision on financing the project will be taken by June 2017. However, given New Delhi’s ‘political reservation’ to China’s OBOR, it needs to be seen how India would react to projects within the AIIB that facilitate Beijing’s ‘belt & road’ initiative. In fact, Beijing had formally invited India to join and support the OBOR in 2014 during the Special Representatives (SRs) level dialogue. Since then, the Chinese leadership has been constantly encouraging India to politically endorse OBOR. Most of the regional or neighbouring countries around India have extended their support for China’s OBOR, while New Delhi has

⁴⁰ “AIIB President says US under Trump may join bank”, *China Daily*, November 15, 2016, at http://usa.chinadaily.com.cn/business/2016-11/15/content_27379776.htm (accessed on February 28, 2017).

⁴¹ “US opposition to AIIB ‘strategic mistake’, says senior Trump adviser”, *South China Morning Post*, November 10, 2016, at <http://www.scmp.com/news/china/diplomacy-defence/article/2044829/us-opposition-aiib-strategic-mistake-says-senior-trump> (accessed on February 28, 2017).

⁴² Fu Jing, “AIIB chief rules out China veto power”, *China Daily*, January 27, 2016, at http://www.chinadaily.com.cn/business/2016-01/27/content_23265846.htm (accessed on February 23, 2017).

⁴³ “India: Amaravati Sustainable Capital City Development Project”, *The Asian Infrastructure Investment Bank*, at <https://www.aiib.org/en/projects/proposed/2017/india-amaravati.html> (accessed on March 16, 2017).

maintained a strategic silence so far. Beijing's promotion of OBOR projects within the bank would certainly test the character of China's and India's roles within AIIB.

To conclude, the role and significance of AIIB is yet to be tested fully in the international sphere and the bank is still in an evolving stage. China, however, appears optimistic about the bank. Reassuring the world that AIIB is not a "rival" to existing international financial institutions, AIIB officials and Chinese officials concurrently advocate that the scope for AIIB membership is still open and the bank needs to be internationalized further. Rejecting any concern over the functioning style of AIIB, Chinese policymakers have been promoting it as an "efficient, clean and transparent" multilateral institution.⁴⁴ Given the manner in which AIIB is financing projects in collaboration with other existing international banks, the Chinese characterisation is indeed correct. But the fact remains that AIIB is still a Chinese dominated bank and the Chinese excitement about AIIB is based on the control and strategic clout that Beijing, as the bank's main architect, wields over its functioning.

⁴⁴ Zheng Yangpeng, "AIIB chief vows to run clean, lean, green institution", *China Daily*, January 22, 2016, at http://europe.chinadaily.com.cn/epaper/2016-01/22/content_23193634.htm (accessed on February 17, 2017).

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