DOES THE ASIAN INFRASTRUCTURE INVESTMENT BANK ADD ANYTHING NEW TO MULTILATERAL FINANCE IN ASIA?

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Does the Asian Infrastructure Investment Bank add Anything New to Multilateral Finance in Asia?

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Abstract

This paper analyses the AIIB; its mandate, resources, governance and how it compares to the other multilateral development banks operating in Asia. When China proposed a new multilateral development bank in Asia devoted to infrastructure, there were numerous questions raised. These included whether there was really a need for another development bank, whether the new bank would have sufficiently high environmental and social safeguards and be as transparent as the existing ones. This examines the AIIB in comparison to the existing multilateral development banks in Asia and in particular the ADB with its emphasis on infrastructure. The paper finds that there is certainly a need for more funding but it isn't clear that it is best met by another multilateral.

Keywords: Multilateral development banks; infrastructure development; development finance; Asian Infrastructure Investment Bank; Asian Development Bank; China; Japan

JEL Classification: F35; O19; N25

Introduction

The Asian Infrastructure Investment Bank (AIIB), inaugurated in 2015, will invest in infrastructure and other productive sectors in Asia.[1] The stated need for a bank dedicated primarily to infrastructure is the need to raise and allocate finance for infrastructure in Asian countries.[2] The argument is that the countries themselves cannot raise the funds needed on reasonable terms (or not at all). The potential resources of the existing multilateral banks and other donors are insufficient as well. More multilateral resources could also catalyse private sector funds for infrastructure development.

The AIIB was proposed by China and it is the first multilateral development bank to be initiated by a non-OECD member. The other major multilateral development banks (MDBs) have been a result of efforts of the "old" OECD countries and from the Bretton Woods agreement.[3] The proposal for AIIB was met with concern from mainly the United States and Japan who questioned the need for another multilateral bank in the region and also questioned China's role as the largest donor to the bank.[4] The bank was perceived to rival the Asian Development Bank and concerns were expressed that the new bank would not be sufficiently transparent concerning its operations. Similar concerns have been raised regarding so called emerging donors, that their aid undercut work done by other donors regarding the environment as well as social sector developments, partly by imposing fewer (if any) conditions, partly by disregarding debt management frameworks.[5] In addition, the bank was perceived to be an instrument of China's foreign policy. The proposal for the bank almost coincided with the One Belt One Road (OBOR) proposal. The aim of the OBOR is to reconnect Europe and Asia along the old Silk Road and a new maritime silk road. This calls

[1] The Articles of Agreement were approved on 25 December 2015. Article 1 states the purpose, Articles of Agreement, AIIB (2015).

[2] In a report published by the Asian Development Bank the estimated amount to finance needed investments in infrastructure in Asia 2010-2020 was $8 trillion. ADB (2008).

[3] The International Bank for Reconstruction and Development was created at the Bretton Woods meeting in 1944. The major regional multilateral banks (the Inter-American Development Bank, the African Development Bank, The Asian development Bank and the European Bank for Reconstruction and Development have all been founded through efforts by the "old" OECD countries. These countries include Western European Countries, the United States, Canada, Australia, New Zealand and Japan.

[4] See for example "Japan Rules out Joining AIIB as a founding member", Japan Times 31 March, 2015. "US reiterates it won't join China-led development bank" 31 March, 2015, Bloomberg. "China Creates a World Bank of Its Own and the US Balks", New York Times, December 4, 2015. "Remarks by President Obama after meeting Prime Minister Tony Abbott, November 10, 2014, Beijing, China.

[5] See for example Walz and Ramacharndran (2011), Wood (2008) and Rowlands (2008).

for vast investments in railroads, roads and port facilities. The AIIB is perceived to partly fill the financing need for the OBOR.[6]

This paper will examine the role that the AIIB may play in Asia by first comparing its mandate, resources and governance to the World Bank group, the European Bank for Reconstruction and Development and the Asian Development Bank (ADB). It then assesses the role of infrastructure in development in Asia and in particular what the ADB has contributed in the field. A concluding discussion then summarises what the AIIB can be expected to add.

The Web of Multilateral Development Banks in Asia

About thirty per cent of official development assistance (ODA) is channeled through multilateral agencies according to statistics from the Development Assistance Committee (DAC).[7] Of these multilateral flows about 70 percent goes through a number of MDBs and financial institutions, and 24 per cent through UN agencies. The remainder through other specialised funds with a multinational membership.

The oldest MDB is the International Bank for Reconstruction and Development. It is the largest institution in the World Bank Group and was founded along with the International Monetary Fund at the Bretton Woods conference in 1944. The objective of the bank was to assist development and reconstruction in territories of members, including restoration of economies destroyed by war.[8] The mandate was subsequently widened to focus on developing countries. The other institutions in the World Bank Group; the International Development Association (IDA), International Finance Corporation (IFC) and Multilateral Guarantee Association (MIGA) were founded in 1960, 1956 and 1988 respectively. IDA provides highly concessional funds to developing countries, while IFC aims to stimulate private sector development. MIGA as the name indicates is a guarantee mechanism. In this paper the focus is on the operations of IBRD and IDA and the two will be referred to as the World Bank. The IMF was founded with the objective of facilitating monetary cooperation and has no direct role in financing development projects.[9] Its mandate in developing countries is to support financial and monetary stability.

[6] Researchers at the Official Bureau of Translation and Compilation state that the AIIB is partly an achievement under the OBOR project at a seminar in Stockholm.
[7] These numbers cover DAC members and the 30 DAC reporting countries.
[8] Article 1, Articles of Agreement, International Bank for Reconstruction and Development.
[9] Article 1, Articles of Agreement, International Monetary Fund.

Twenty-one countries signed the Articles of Agreement for the World Bank initially and when they became effective 31 December 1945 there were twenty-eight signatories. The first loan application came from France in 1946 needing to fund imports of material and equipment as part of its reconstruction after the war.[10] This was the first loan that was approved amounting to $250 million. Chile received the first development loan in 1948 to finance hydroelectric power and agricultural production, while Mexico received the first sector loan in 1949. This loan was for electric power development. More loans followed to Latin American countries for development of electric power and telephone communications. The first loan to an Asian country was to India in 1949 and this was a railway project. Ethiopia was the first African country to borrow and it was for a highway project. Thus the first loans made by the World Bank to developing countries were thus for infrastructure. The emphasis has since shifted. Public administration, law and justice has become largest sector for World Bank lending, with energy and mining the second largest.

The regional multilateral development banks were set up with an explicit regional focus by their membership and would complement and sometimes offer an alternative to the World Bank. The first one to be set up was the Inter-American Development Bank (IADB) established in 1959 with headquarters in Washington D.C. and the second was the African Development Bank (AfDB) in 1964, based at the time in Abidjan.

In Asia the ADB was set up in 1966 with the explicit aim of promoting economic growth and development, and regional cooperation.[11] Japan and the United States are the largest contributors of capital to the Bank, currently holding 13 per cent of capital each. By tradition the president is always a Japanese national just like the president of the World Bank is an American national. The geographic area covered originally stretched from Pakistan eastwards to include Pacific island states. Following the break-up of the Soviet Union newly independent states in Central Asia joined the bank in the 1990s. Countries in the Caucasus joined early in the 2000s.

The World Bank and ADB are somewhat similar in their operations even if their stated purposes differ somewhat. They offer concessional loans to developing countries, provide technical assistance to help develop projects, support project implementation, and provide advisory support to individual countries and regions. The vast majority of loans are to

[10] World Bank (2015)
[11] Article 1, Agreement to Establish Asian Development Bank.

governments but they have a private sector arm to stimulate private sector development. In the case of the ADB this is in the form of a separate department within the bank.[12]

The European Bank for Reconstruction and Development (EBRD) was set up in 1992 with the mandate to stimulate growth and the transition to a market-oriented economy in the former centrally planned economies in Eastern Europe and Mongolia. The mandate was explicitly to stimulate private sector growth. The thinking being that there was primarily a financing gap needing to be filled. The lending is private sector oriented as opposed to the government lending that dominates the other MDBs.

The Asian Infrastructure Investment Bank – a different MDB?

The AIIB was formally inaugurated only in December 2015 and held its first annual meeting in June 2016. As of 1 November 2017, there were 58 member countries, 20 non-regional and 38 regional. The western geographic boundary for a regional member country is at the Caucasus. Georgia is considered regional as well as Israel, and other Middle Eastern countries. Any country that is a member of the International Monetary Fund or the Asian Development Bank may apply to become a member of the AIIB. So far, none of the small island states in the Pacific that are members of the ADB have applied to join AIIB.

Since the first loans were only approved in September 2016, the operations cannot be analysed to understand what AIIB contribute. However, the Articles of Agreement are published as are policy documents and guidelines regarding operations and standards. In addition, the President of the bank, Mr Jin Liqun, has made a series of public presentations and given many interviews about the bank. Combined these provide some insight into the bank and its mandate.

Mr Jin Liqun was posted to the World Bank in the 1980s and held the position of Vice President in the ADB 2004-2008. He then returned to Beijing and worked for the China Investment Corporation before becoming involved with the preparatory work for the AIIB. He has stated in presentations that he has experience from two multilaterals and he has drawn on this direct experience as well as written sources for the preparatory work.[13] Good policies and practices could be copied while more time-consuming aspects that were perceived to be

[12] In the ADB there is a private sector department that offers loans to support private sector developments which will not be analysed specifically here. The IFC is a separate legal entity in the World Bank Group while ADB is one legal entity comprising all operations.

[13] Speeches at Copenhagen Business School March 2, 2016 and Institute of Foreign Affairs in Stockholm 25 September, 2016

costly and inefficient should be avoided. The stated aim was that the new bank would be different; it would be "lean, clean and green".[14]

To examine to what extent AIIB is different an assessment can be done under the three main headings of lean, clean and green. Lean refers to cost-effectiveness and will be discussed below as this is the area where AIIB a priori differs from the other banks. Clean means that there will be zero tolerance for corrupt activities and green means that the bank will pursue high environmental standards in the projects it finances. The clean aspect of the bank will not be assessed in detail since there are only the policy documents available to study. These documents communicate policies and standards that are similar to the other banks. It is worthwhile to note though that one of the first senior appointments to be made was the Director of Compliance, Effectiveness and Integrity in April 2016.[15]

To be a green bank refers to environmental responsibility. This is important since infrastructure projects have environmental (and social) impacts. How the environmental impact is managed and potentially harmful effects mitigated are of great concern. The established MDBs have over the years developed policies and procedures to assess environmental impact and included resources how to deal with consequences in the project funding. That may include support for displaced families when infrastructure is built for example or projects related to developing alternative sources of income if farmland is used for infrastructure. The concern raised regarding environmental standards reflects concern with China's own rapid development and the increased pollution from coal fired plants and rapid growth of road transports. In addition, the many dams built have raised concerns about the impact down-stream as well as concerns about relocation of people.[16] In the literature it is clear that there is a concern among the established OECD/DAC members that emerging donors would have less stringent conditions regarding environmental and social impact.[17] However, it remains to be seen how "green" the operations will be. Twenty-one projects had been approved as of 1 November 2017. The majority are co-financed with the World Bank, ADB or EBRD. It thus means that for the co-financed projects AIIB had to rely to a large extent on the project preparatory work carried out by other institutions.

One can examine how lean AIIB sets out to be from its organisational structure. First of all, the main and only office is in Beijing. There are currently no plans to open representative

[14] Interview in Financial Times 22 April 2016
[15] AIIB press release April 14, 2016
[16] See for example Day (2005), Gang (2007) and Song and Woo (2008) for in-depth analyses of difference aspects of the environmental aspects of the rapid economic development and industrialisation.
[17] Woods (2008)

offices in borrowing countries or other regions but the Board can decide to open offices in the future. The other three banks have offices in many borrowing countries as well as representative offices in other capital cities, typically one in Tokyo, one in Washington D.C. and one in a European city.

Second, the AIIB will not have a resident board of executive directors. Like other MDBs all member countries have one representative on the Board of Governors. The Board of Governors meets once a year at the annual meeting and delegates the management of the bank to the Board of Directors. This set-up is similar to the other MDBs. The boards of directors have far fewer representatives than the board of governors in the MDBs. Member countries group together in constituencies to be represented by a director on the board of directors. Only the largest contributors of capital have a board seat of their own.

In the World Bank, the Executive Board is resident in Washington D.C. and it is made up of 25 representatives. Only the United States, Japan, France, Germany, the United Kingdom and China have their own representatives on the board. The other countries are grouped in constituencies, in some cases consisting of both developed and developing (or borrowing) countries. There is thus no clear division between donors and borrowers in the representation at the Board. Each constituency has its own office staffed with several professionals which raises the administrative costs. The United States is the largest shareholder and has 16.28 per cent of the votes. Japan is the second largest shareholder with 7.02 per cent of the votes and China has 4.53 per cent.

The EBRD is headquartered in London and has an executive board with 23 seats. The United States is the single largest capital contributor with 10 per cent of the capital. It has its own seat on the board and so do Germany, France, Italy, Japan and the UK which each hold 8.62 per cent each of the votes. Two institutions, the European Union and the European Investment Bank (EIB) have three per cent each of the votes and their own board seats as well. The fact that another multilateral (EIB) is a shareholder is unusual and that the EU has its own seat alongside all other EU members is too. The remainder of the seats on the board are allocated to a mix of non-borrowing and borrowing countries. Here too each constituency has an office staffed with several professionals.

In ADB there are currently 12 board seats. Japan, the U.S. and China each have their own seat on the board. Japan and the US have the largest share of votes with barely 13 per

cent each.[18] China has 6 per cent. The constituencies are a mix – some are made up only of non-borrowing countries while others include both. There is thus not a clear demarcation between donors and borrowers. There is however, a regional division with four non-regional board constituencies and eight regional. The Articles of Agreement stipulate that there should be ten members of the Board of Directors, seven of whom shall be regional and three non-regional members.[19] The Articles says that votes are according to shares. Each constituency has an office with several professional staff working full-time.

The AIIB also has twelve executive directors. Three represent non-regional members and nine represent regional members. It is stipulated in the Articles of Agreement that 75 per cent of share capital and votes will belong to regional member countries and 25 per cent to non-regional member countries.[20] This means that regional members will have a much stronger vote than non-regional members. China is the largest shareholder and currently holds 28 per cent of the shares and has a board seat of its own. India is the second largest shareholder with 8 per cent and is the only other member country to have its own board seat. The Executive Board can with a three-fourths majority delegate most of the decision-making power to the president.[21] An article in New York Times claims that the President initially did not want to have a Board of Directors thinking it too costly and adding little to the quality of projects but had to backtrack after pressure from other member countries.[22] In any case, the fact that the board is not resident means that costs are kept down though. Furthermore, this means that there should be less administration and faster decision-making which also cuts costs. On the other hand, it means that senior management will be in a comparatively stronger position compared to the other boards since they have far latitude in day-to-day management.

Another aspect of being lean is the way the bank plans to handle funds for project assistance. The bank recognises that borrowing countries may need support in formulating and preparing project plans in addition to the need for technical assistance during project implementation. A Special Fund has been created for this purpose and any donor country that wishes to contribute can do so and all contributions will be pooled into this one fund.

In the other multilaterals there are a range of special funds with different objectives or purposes. Donors that want to champion a certain cause often suggest and establish a special

[18] Japan has 12.78 and the United States 12.71. China joined ADB in 1986 whereas Japan and the United States are members from the start.
[19] Article 30 in the Articles of Agreement. The Board of Directors was enlarged to twelve in a decision at the fourth annual meeting.
[20] Article 25 in the Articles of Agreement
[21] Article 26 in the Articles of Agreement
[22] "China Creates a World Bank of Its Own and the US Balks", New York Times, December 4, 2015.

fund for that purpose. The funds can then finance special feasibility studies and provide technical assistance once a project is started. The arrangement with one fund will certainly give more clout to the management and less to individual member countries but will also reduce administration.

The question whether the AIIB will be different from the other MDBs in its operations remains to be answered but it is clear that there is a shift in governance and management set-up that can give management more leeway than in the other MDBs and allow for faster loan processing. The set-up also seems to signal that the bank's operations should be removed from individual donor's policy objectives or motivations that may influence strategies or projects.

Multilateral finance and infrastructure development

With three multilateral banks that lend to Asian countries stretching from Georgia to the Philippines, one question raised was whether there really is a need for another one and one devoted to infrastructure. As noted, the shortage of infrastructure in Asia has been documented in studies and there is little disagreement that there is a need for infrastructure.

The focus on infrastructure is not new, especially not in Asia. The ADB has long focused on infrastructure development. Almost 70 per cent of cumulative lending has been directed at infrastructure since the bank's inceptions.[23] The EBRD has allocated barely 30 per cent of its investments to energy and transportation. The early World Bank lending aimed to reconstruction and the early loans were allocated largely to infrastructure projects but over the decades lending to other sectors has grown. ADB has a clear focus on economic development and regional cooperation, whereas the EBRD aims to foster, in particular, private sector growth. EBRD lends more to the financial sector than to infrastructure as a result. The World Bank with its broad mandate lends comparatively less to infrastructure.

Moreover, the largest bilateral Asian donor and fifth largest donor globally in absolute terms – Japan – has long advocated the importance of infrastructure funding.[24] Its ODA policies and practice has had a strong emphasis on promoting growth and economic cooperation. Japan has also emphasised the use of its own development experience in formulating aid policies. Infrastructure is seen as a base for economic growth and in particular for industrialisation.

[23] ADB Annual report 2015

[24] About 37 per cent of Japan's cumulative bilateral ODA (1067-2015) has been allocated to economic infrastructure according to OECD data. That includes transport, energy, communication and financial sector development.

The role of infrastructure in development has been studied extensively in economic research but there is no conclusive view regarding the importance of infrastructure. Ali and Pernia summarise the direct and indirect impact that infrastructure projects can have on development and poverty reduction.[25] They find that studies show a positive impact on productivity, employment and incomes from irrigation schemes, electrification and rural roads. However, they caution that while these results hold in some rural areas country specificities need to be taken into account. When examining the link between infrastructure and growth and poverty reduction Agenor and Moreno-Dodson as well as Straub find that there is a positive link but stress the importance of other policies supporting development being in place.[26] A study on the impact of infrastructure investment in China finds that there was a link to higher growth but given that projects were financed with debt this development lead to economic fragility.[27]

A 2009 report from the ADB estimated that the total amount needed for infrastructure in Asia between 2010 and 2020 was US$8 trillion.[28] That amount is vastly more than the individual countries and the existing development banks could hope to raise and allocate to infrastructure since they are devoted to supporting development projects in all sectors. The exception is the EBRD which is primarily devoted to promoting private sector development and is not involved in funding the social infrastructure for example.

To understand the contribution of AIIB it is necessary to look at the capital the MDBs have access to. The MDBs have a base of equity capital supplied by the members who are the owners. They raise money on international capital markets through bond issues to increase the funds that they can on-lend to recipient governments. In addition, repaid loans add to the loanable funds that the MDBs have. The data in table 1 shows the founding capital, its present value and lending levels for all sectors. It is clear that the AIIB has a capital base that is much larger than the existing regional banks and even rival that of the World Bank. The data on lending indicates that lending levels are high in 2015 relative to base capital. This could be explained by demand, low interest rates and possibly a determination to meet potential competition. Since all MDBs raise additional capital by issuing bonds to augment the capital it can lend it is clear that the AIIB not only has a comparatively large capital base and potentially can lend substantial amounts, it can possibly overtake the others. However, there are several caveats no least the absorptive capacity of borrowers. It is beyond the scope

[25] Ali and Pernia (2011)
[26] Agénor and Moreno-Dodson (2006) and Straub (2008).
[27] Ansar et al (2016)
[28] ADB (2009)

of this paper to examine borrowers' debt tolerance or the overall capacity to rapidly expand borrowing and capacity to implement infrastructure projects but it certainly is an issue that needs to be examined alongside the projected infrastructure needs and potential funding.

Table 1. Comparative Data for the MDBs in the Asian Region as of 2015

	AIIB	World Bank	ADB	EBRD
Founded	2015	1945	1966	1992
Members	57	188	67	64
Founding capital	$100 billion	$10 billion	$ 1 billion	Ecu 10 billion
Current value		$134 billion	$6.45 billion	€15 billion
Lending 2015	-	$45 billion	$27 billion	€9.4 billion
Cumulative lending	-	$984.8 billion	$97.8 billion	€106 billion

Sources: Articles of Agreement of IBRD, Articles of Agreement IDA, Agreement to Establish ADB, EBRD Agreement. Member countries as of 2015 per updated information in 2015 ADB Annual Report, 2015 EBRD Annual Report, Fiscal year 2016 Report from the World Bank.

Working papers from the OECD chart the resources provided for infrastructure, who the donors and recipients are, as well as a broader analysis of the enabling environment.[29] They find that Asia had received half of ODA and OOF flows to infrastructure. Japan was the largest bilateral donor in 2013 provided $6.6 billion. Korea emerged as third largest bilateral donor behind Japan and the U.S, spending $3.1 billion. Among the so called emerging donors, China was estimated to have spent $2.2 billion on infrastructure projects in 2012. Asian countries thus stand out among donors and recipients of development finance for infrastructure. ADB was the largest regional development bank provider in infrastructure in 2013, and the ADB has devoted 70 per cent of its cumulative lending to infrastructure.

The Asian Development Bank and infrastructure

The ADB was inaugurated in 1966 and its aim is to foster economic growth and cooperation in the region of Asia. It came about through Asian initiatives and says in its Articles of Agreement that it is Asian in character. The Bank has since its inception characterised itself as a "family doctor" in the words of its first president Mr. Watanabe.[30] The family doctor is someone who "who tries to know and learn everything possible about the health of his many patients so that he may be able to help them in their hour of need".[31] In

[29] OECD (2015) and OECD (2016)
[30] Wilson (1987), p 54
[31] Quoted in Wilson (1987) p 55

practice, this meant that ADB:s regional character made it better suited to understand the Asian borrowing countries. It was also acknowledged that ADB had limited capital and human resources and for larger, more resource intensive projects might be better positioned to respond.

Like the World Bank, ADB offers two types of loans to its developing member countries, "ordinary" loans and very soft loans to the poorest borrowers. The first loan was made in 1968. It was a credit line to the Industrial Finance Corporation in Thailand. This development finance institution was guaranteed by the Thai government and its aim was to provide medium- to long-term finance for industrial development.[32] Loans followed to expressways and irrigations systems as well as credit lines to other local financial institutions to support small- and medium-sized enterprises and larger industrial ventures that needed longer loans that domestic banks were willing to supply.

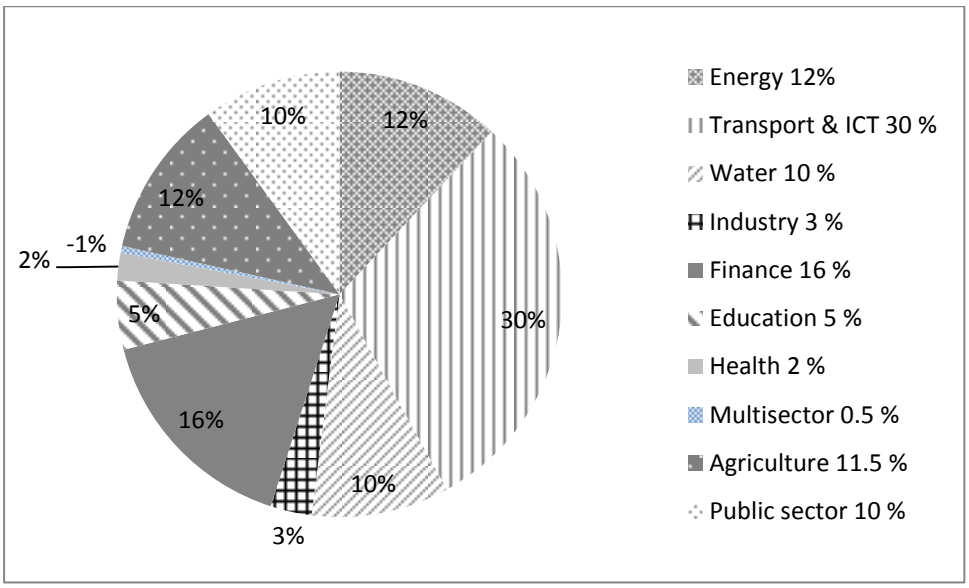
In the Bank's first decade of operations, 52 per cent of loans were directed to infrastructure and industry. Agriculture was the second largest sector receiving about 19 per cent of loans reflecting the importance of agriculture at the time. In this sector irrigation schemes – a type of infrastructure – received almost a third of the loans. The second decade continued with an emphasis on energy and other infrastructure amounting to half of the lending and agriculture accounted for 31 per cent. A major review of the bank's operations in 1982 said that the bank was good at project financing but now needed to take a broader view of development.[33] The report stated that the bank had built its portfolio and expertise over the years and in particular in agriculture, industry, energy and infrastructure but did not sufficiently engage in dialogue with borrowers. The bank was recommended to continue to prioritise those sectors but also adopt multiyear programming, meaning preparing multiyear strategies for each country. The Bank continued with its emphasis on project lending and in the decade from 1987-1996, some sixty per cent of loans were directed to infrastructure. Agriculture continued to be important as well. However, both the earlier external review and internal assessments led to a broader focus that included social and environmental issues.

From 1998 the Bank aimed to move away from its role and reputation as a project financer focused on infrastructure. A Poverty Reduction Strategy was prepared as well as a Long-term Strategic Framework. The Asian financial crises made the Bank move into crisis resolution and prevention work. The lending to strengthening and developing financial sectors increased dramatically. Lending to agriculture decreased substantially as a share of

[32] ADB (2016), vol 1
[33] "Study of Operational Priorities and Plans for the 1980s" summarised in (Wilson 1986)

total lending whereas loans to transportation and ICT increased. The cumulative lending 1997-2006 ended with about half of the loans to infrastructure. The number increased slightly over the Bank's fifth decade of operations. These numbers represent the categorisation of loans and do not reflect changes that have taken place in types of operations within categories to correspond to strategic changes with respect to inclusive growth or efforts to mitigate environmental or social impact from projects. The cumulative lending data for the ADB from its inception as illustrated in Figure 1 shows that infrastructure has been important throughout and that the nickname infrastructure financier has some truth to it.

Figure 1 ADB cumulative lending by sector (1966-2016)



Source: *ADB Through the Decades*, (2016)

As its fiftieth anniversary approached in 2016, the ADB published an updated study on infrastructure needs from 2016 to 2030, the year that the SDGs should be reached. The estimated funding needs amount to $26 trillion over this period, or $1.7 trillion per year. That number should be compared to the total lending from ADB and the World Bank group in 2015 of $72 billion for all sectors. Leaving questions of methodology in this forecast aside, the numbers clearly indicate that there is a need for more funding for infrastructure. The question remains whether another multilateral development bank the answer to catalysing funds? A short answer is that the world is awash in liquidity and there are plenty of institutional investors who likely would be willing to invest in infrastructure one way or the other. There may be a need for risk-sharing and the types of guarantees that multilaterals can offer since – as AIIB president Jin Liqun has pointed out - many of the borrowing countries

in the Asian region cannot raise the funds needed on their own. The existing multilaterals offer guarantees and are involved in co-financing with each other as well as with a range of public and private entities. The AIIB may be able to catalyse funds that the others cannot and that way add to the financing of infrastructure. Even so the amounts are likely to fall short of estimated needs.

AIIB as a Foreign Policy Tool

Moving beyond infrastructure needs and the role that AIIB can play in that, questions arose regarding AIIB as part of China's foreign policy which will be briefly addressed. China has a long history or providing foreign assistance but it was only in 2011 that the Foreign Ministry published a White paper outlining policies, amounts and summaries on which sectors and countries received aid.[34] The White paper covered development finance that can be classified as ODA. In addition to this there are three more government financial institutions that provide funding to developing countries and those are the China Development Bank, China Investment Corporation and lately the Silk Road Fund. The latter fund is owned by the Government directly as well as by China Development Bank and China Investment Corporation. It was set up explicitly to provide funding for projects related to the One Belt One Road project reviving the old Silk Road and creating a maritime silk road through financing ports and facilities related to trade.

Table 2. Chinese Government-owned Financial Institutions

	Export-Import Bank	China Development Bank	China Investment Corp.	Silk Road Fund
Founded	1995	1994	2007	2014
Capital base	$200 billion	$62 billion	$200 billion	$40 billion
Assets end 2015	$427 billion	$1,904 billion	$819 billion	n.a

Sources: Annual reports from China Ex-Im Bank China Development Bank and China Investment Corporation. Data from www.**silkroadfund**.com.cn,

Table 2 shows that these financial institutions are well capitalised, especially compared to the MDBs discussed earlier. The Export-Import Bank handles the concessional loans that are part of the formal aid programme. In addition, the bank offers trade finance, overseas investment loans and loans for greater openness. The outstanding international cooperation

[34] Cooper (1976) documents foreign assistance from 1949-1975 while Copper (2016) provides an account until 2015. The 2011 White Paper was followed by an updated White Paper in 2014.

loans make up a quarter of total outstanding loans. The China Development Bank was founded in 1994, and its primary focus is to fund development projects in China and about 15 per cent of its assets are on other countries. By the end of 2015, total assets amounted to $1.9 trillion, which made it the fourteenth largest bank in the world in terms of assets.[35] The loan portfolio consists of about 30 per cent infrastructure projects, 9 per cent energy projects, and 9 per cent strategic emerging industries. About 14 per cent of outstanding loans were to projects outside China. These include a container port in Sri Lanka, energy in the Kyrgyz Republic and cotton farming in Africa.

In 2015, $14.9 billion were invested in projects linked to One Belt on Road and these projects can of course be located in China or in other countries along the belt and road. China Investment Corporation is a sovereign wealth fund that invests broadly in equities and bonds. By the end of 2015, 11.68 % of funds were placed in emerging market equities.[36] The Silk Road Fund has undertaken a few investments according to its website, mainly in power and transportation. The fund was promised another RBM 100 million from the government in June 2017.[37]

To summarise, China has several government-owned financial institutions that can and do provide funds on different terms for development cooperation in the broadest sense. These financial institutions have resources that are far larger than those of the AIIB. The Chinese government thus have substantial resources to channel to aid-defined projects as well as to other projects in developing countries, promoting cooperation with developing countries according to its development assistance policies and principles, emphasising mutual benefits and cooperation, and respect for the recipients sovereignty.

The establishment of the AIIB can be interpreted as part of China's foreign policy but not as part of economic cooperation. The bank, while very well capitalised compared to its peers is small compared to China's existing development financial institutions to add much financial muscle. However, since it is the first truly multilateral development bank that has been initiated by a non-OECD country and has a non-OECD member as its largest shareholder, the bank is a testament to China's position as the second largest economy in the world. China has also lifted an estimated 300 million out of poverty in three decades and that fact gives China confidence in promoting Chinese development strategies in a multilateral setting, one where China is not the junior partner.

[35] China Development Bank Annual Report 2015.
[36] China Investment Corporation Annual Report 2015
[37] Press release dated 14 June, 2017 http:www.silkroadfund.org/news

Concluding discussion

The AIIB has been in operation for almost two years and has to date approved 21 projects. It has thus far co-financed the majority of the projects with existing multilateral banks in the region and also has invested in two funds that focus on infrastructure. The proposal for the AIIB led to an intense debate on the need and role for a new multilateral development bank in Asia. That vast sums are needed to invest in infrastructure in the region is clear and not necessarily questioned. More focus was on China's motives for proposing a new multilateral bank and whether the bank would have the same requirements for environmental sustainability in its projects as existing banks. The new bank meant competition for the ADB which had long been the main multilateral financer of infrastructure in the region. The emphasis on projects and especially infrastructure has been a result of the objective of promoting economic growth and the approach that infrastructure is the base on which to build. The ADB responded by increasing lending and also launching an updated study on financing infrastructure with reference to the SDGs. The ADB has co-financed four projects with the AIIB so far, signalling that co-operation may be a way forward.

Japan proposed principles for quality in infrastructure investments at the G7 meeting in Japan in 2016. The principles refer to governance, job creation, social and environmental impacts, alignment with development strategies and enhancing resource mobilisation through public private partnerships.[38] While the G7 is not a forum for discussing or planning either bilateral or multilateral development finance, it is evident that the global leaders, and in particular Japan as the host, found it necessary to recognise the importance of infrastructure investments in general and raise sustainability issues surrounding large infrastructure projects to a global level. This is likely a response to China's backing of the AIIB and the launch of the One Belt One Road infrastructure project(s).

It is too soon to determine AIIB:s role but its mere establishment did set in motion actions in multilateral settings that recognised China's role as a provider of development finance and its role in infrastructure development, and seemingly began a push to catalyse and augment funds for the sustainable development goals.

[38] The G7 Ise-Shima principles for promoting quality infrastructure investment

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