

China's New International Development Initiative ——Asian Infrastructure Investment Bank: Opportunities and Challenges



Qiangwu Zhou

Asia-Pacific Finance and Development Center, MOF China



Asian Infrastructure Investment Bank

- I. Founding background
- II. Recent Progress
- III. Policy Design
- IV. Governance Structure and Capital Arrangements
- V. Advantages and Opportunities
- VI. Challenges
- VII. Ending



1. Founding background——

Why do we need the AIIB?

- **Firstly, infrastructure construction helps support economic growth, especially in developing countries (China case).**
- China has been enjoying incredible economic growth for the past three decades, partially owing to the government's long-lasting massive investment in infrastructure. Ever since the beginning of the reform and opening-up in the late 1970s, the Chinese government has exerted great efforts, by absorbing funds from not only home but also abroad to strengthen all-round infrastructure construction, from urban to rural, from roads to bridges, from electric power to telecommunications.
- An estimated, in the past 30 years, roughly about 30 trillion RMB(6 to 7 trillion USD) have been injected into infrastructure and primary industries, which significantly improved its infrastructure and helped boost China's economy. In a word, China has benefited a great deal from valuing infrastructure construction.



1. Founding background——

Why do we need the AIIB?

- **Secondly, there is a huge gap between demand and supply in infrastructure investment in Asia, or largely the whole Asia Pacific region.**
- The Asia-Pacific is still the most vigorous region around the globe. To further promote economic development and integration of the region, it is imperative to improve and upgrade national and regional infrastructure and to achieve connectivity throughout the region.
- According to the World Bank, East Asia's demand reaches 60 billion dollars a year, while south Asia also has huge demand for infrastructure investment in the next decade. ADB estimates that during 2010 to 2020, at least 8 trillion dollars infrastructure investment is needed for Asia to sustain its current economic growth, as well as 287 billion dollars on specific regional infrastructure projects.



1. Founding background——

Why do we need the AIIB?

- **Thirdly, existing multilateral development agencies, such as World Bank and ADB, are all constrained by their capital base to provide sufficient resources.**
- Neither World Bank nor ADB is capable of providing sufficient funding to address Asia's enormous infrastructure demand. These two institutions provide only about 20 billion dollars funding a year for Asia, among which the amount for infrastructure only takes up 40%-50%, that is only about 10 billion dollars a year.
- It is in this context that the Chinese government initiated the idea of establishing the AIIB in 2013, believing that the new institution can serve as a new financing platform to meet with the growing need for the region's infrastructure investment.



11. Recent Progress

- ❖ Ever since October 2013 when Chinese President Xi Jinping announced that China would initiate AIIB, China has been vigorously pushing forward the founding process.
- ✓ Set up a Working Group to speed up the preparation of AIIB as early as March 2014, with former vice finance minister Mr Jin Liqun as group leader (senior management in WB and ADB).
- ✓ Till October 2014, the working Group had conducted five rounds of multilateral consultations as well as many bilateral dialogues with interested countries in the region.



11. Recent Progress

- ✓ On 24th October 2014, representatives from 21 countries signed the ‘Memorandum of Understanding on Establishing the AIIB (MOU) as prospective founding member, formally recognized the establishment of the bank.

The 21 countries include China, India, Thailand, Malaysia, Singapore, the Philippines, Pakistan, Bangladesh, Brunei, Cambodia, Kazakhstan, Kuwait, Laos, Myanmar, Mongolia, Nepal, Oman, Qatar, Sri Lanka, Uzbekistan, and Vietnam.

- ✓ Later last year, Indonesia, Myanmar and Maldives joined.
- ✓ On 4th January 2015, New Zealand become the prospective founding member, making it the first developed economy in the AIIB.
- ✓ On 13th January, Saudi Arabia and Tajikistan also joined AIIB.
- ✓ On 9th February, Jordan became the 27th member of AIIB.
- ❖ **With the new addition, the number of prospective founding members of the AIIB has increased to 27. The new multilateral secretariat is actively consulting with other regional and non-regional countries. It is agreed that any countries can become founding members if they sign the MOU by the end of March 2015.**



11. Recent Progress

- ✓ On 28th November 2014, the first Chief Negotiators Meeting(CNM) of AIIB was held in China. Chief negotiators from 22 prospective founding members attended the meeting, discussing the procedures and rules for accepting new founding member, the CNM's working plan and rules, as well as the working procedure of the temporary multilateral secretariat.
- ✓ On 15th January this year, the second CNM was held in India, representatives reviewed the Draft Article of Agreement (AoA) composed by the Chief Counsel of the temporary multilateral secretariat.
- ❖ **More CNMs will be held in the first half of 2015 to negotiate the AoA of AIIB.**
- ❖ **As scheduled, there will be two more milestones in the timetable, the first is **June** when the AoA and other legal documents will have been reached by member countries, the other is **the end of 2015** when all the preparation work will be done and AIIB will go into operation by the end of this year.**



III. Policy Design

- Regarding policy designs, we are fully aware how important such policies as safeguard, procurement, environmental impact assessment are to any MDBs. AIIB will pick up whatever is their plus and avoid whatever is their minus, and design a set of policies and regulations that are **formal, high-standard and best-suited to the Asia-Pacific region.**
- Meanwhile, the AIIB would also carefully design policies on **project assessment, project implementation and supervision, project evaluation, risk management,** and etc..
- In general, AIIB would **follow the international practice in policy design, and give highest attention to environmental impact, resettlement and other areas which might be concerned.**



III. Policy Design

On talents recruitment

- The smooth development of World Bank and ADB for decades would not be possible if without their value for talents. In order to attract talents, AIIB would exercise **open recruitment in a global context** to attract specialized talents, particularly talents on finance, railway, road, and other related sectors.
- AIIB welcomes all talents to join, no matter he's from member country or not.
- In fact, experts have been invited, from international institutions such as World Bank, IMF and EIB and others to join in the preparation work. The Chief Counsel of the temporary multilateral secretariat is from the U.S. (Ms. Natalia Litchensutein will help frame the AoA of the Bank).



IV. Governance Structure and Capital Arrangements

Governance Structure

- As we all know, both World Bank and ADB have **three-layer governance structure**, including the Board of Governors, the Board of Directors and the Management. AIIB will have a similar governance structure.
- At its initial stage, AIIB would have a **non-permanent Board of Directors**.
- AIIB would also adopt an effective **supervision mechanism** to ensure the management's accountability. The president and other senior management will be selected and recruited in an open, inclusive and transparent manner.



IV. Governance Structure and Capital Arrangements

Capital Arrangements

- According to the MOU, the required capital is 100 billion USD, among which the initial subscribed capital aims to be around 50 billion USD, the paid-in capital shall account for 20% of the subscribed capitals. Payment of the paid-in capital will be made in installments by member countries.
- **Capital increase** would be considered by the members as and when necessary in the future.
- As one of the main founding members, China will be allowed higher capital ratio only when the actual subscribed capital is less than the targeted USD 50 billion. As more countries join, China would be ready to be diluted in its shareholding.



V. Advantages and Opportunities

- ❖ AIIB will be a MDB of **specialization, openness, high standards, and innovation.**
- ❖ **Specialization.** While World Bank and ADB focus on poverty reduction as the main objectives, AIIB will be mandated to **promote infrastructure development and connectivity in Asia** and will function as a **financing channel specialized in infrastructure.** AIIB will gradually expand its business to all kinds of infrastructure projects, from hard infrastructure like road and bridge, energy supply to social infrastructure like health and education, with **regional and cross-boarder projects as priority.**
- ❖ **Openness and inclusiveness.** AIIB has been sincere in inviting all interested countries to join. China, from the very beginning of the preparation, has been conducting consultations with related countries and institutions, listening to their advice and suggestions, one of which is Australia.



V. Advantages and Opportunities

- **High standards.** With well-designed governance and standardized regulation, building upon the experience and lessons from World Bank, ADB, European Investment Bank (EIB) and other MDBs, AIIB will come into play as a well-functioned multilateral financial institution. Besides, AIIB will be more **country-driven**, closer to its clients.
- **Innovation.** AIIB has been exercising some innovative practices regarding voting rights and recruitment of staff. All founding members, those that join AIIB before 31st March will have special voting rights. And open recruitment will not be exclusive to member and regional country only, but apply to talents all around the world.



V. Advantages and Opportunities

❖ **AIIB will benefit all countries regardless of their development stage.**

- As for developing countries in Asia, AIIB will help boost their infrastructure development and promote enabling environment for their economic growth.
- Whereas in developed countries, AIIB can help increase demand for capital goods and help drive economic recovery.
- For Asia as a whole, AIIB will not only help speed up connectivity, improve independent development capacity, but also provide sustainable impetus to growth.
- Moreover, AIIB will reinforce the existing MDBs as an indispensable complements in updating and modernizing the global economic governance.



VI. Challenges

- Although there is great urgency and vast potential, it inevitably faces some challenges, at this stage in particular.
- While the negotiation of AoA and its approval by member countries' legislation body is the short-term challenge, AIIB also have other mid and long term challenges for its pursuit of both high standards and efficiency.



VI. Challenges

- **Firstly, sustainable development requires any MDB to be capable of mobilizing enough resources with low cost.**
- Mobilizing resources from the international financial market with low cost depends largely on the rating of the issuer. The Bank aims to reach AAA level. In fact, existing MDBs such as World Bank, EIB, ADB and other development banks are all 3A rating.
- In order to achieve that goal, more countries with high credit rating will be welcomed to join.
- New Zealand is a good start.



VI. Challenges

- **Secondly, the governance structure and policy design of AIIB remain further study and negotiation.**
- On one hand, we are committed to follow the international standard. It takes World Bank, IMF and other MDBs almost 70 years of exploration and practice to evolve into today's structure and standards. In the context, AIIB should learn from the existing MDBs in both governance structure and policy designs such as safeguard, procurement, environmental impact assessment and etc..
- On the other hand, there is no such thing as best practice for all, especially in a world that is changing so rapidly. We have to carefully study those international experience, making it our own practice that best suits Asian needs and experience.



VI. Challenges

- **Thirdly, AIIB must enhance institutional capacity and talents building as early as possible.**
- **Capacity building is the foundation for the healthy development of any institutions.** However, it is a common problem for all the existing MDBs, we can not be too serious with this matter.
- **Talents building is the key to release the potential and promote competitiveness for AIIB.** Acknowledging that, AIIB should make plan for talent recruitment and training at the very beginning. However, it is challenging to build a professional technical team that has both international vision and thorough understanding of Asia.



VII.Ending

- ❖ AIIB is to **complement and cooperate**, not to compete with the existing MDBs.
- China has always been supporting the existing institutions for their prominent role in global development. For instance, China's donation to IDA in WBG increased significantly in recent years, reached 300 million USD in 2013, which is the largest donation from developing countries. We are also quite supportive to the establishment of the GIF in WB, and will have more financial contributions to ADB.
- Good things: The senior management of World Bank and ADB have expressed on several occasions about their strong wish to cooperate with AIIB. And AIIB will actively explore with them on various ways of cooperation, such as co-financing and parallel financing.





Thank You!