



# RESEARCH BRIEF

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## Is the AIIB a Challenger or Harmonizer?

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### Key Points:

- Contrary to popular conceptions in the West, the AIIB has aspired to meet or exceed international norms in terms of environmental, social and anti-corruption standards.
- This is in part due to the early need to co-finance initiatives with other MDBs such as the World Bank as well as the desire to gain wide acceptance for a newly created multilateral institution initiated by China.
- The real test will be in the implementation for the road ahead, including the choice and quality of its projects and the bringing together of different cultures and mind-sets within the bank.

The Asian Infrastructure Investment bank (AIIB) is the most recently established multilateral development bank (MDB) and the first of its scale initiated by and headquartered in China. A project of this size is rare - with \$100 billion USD capital and already 97 members onboard, its potential impact over the course of this century could be significant. It is also the first bank of this kind with a greater leadership role from the developing and borrowing countries. Yet it is not without its

skeptics. Prominent have been concerns from the United States under the Obama administration that the newly-created international institution, with influence from China, might not meet necessary global norms and standards. Despite its growing presence and prestige in Asia, there is a broader sense of lack of awareness and understanding of the bank in the West.

This Research Brief asks whether the AIIB represents a departure from the existing multilateral development bank institutions, such as the World Bank, European Bank for Reconstruction and Development, and the Asian Development Bank and, specifically, what the implications of China's unique role are? How does it relate to the Belt and Road Initiative (BRI), which is another, but in many ways, different international program initiated by China? What kinds of environmental and social standards, including anti-corruption, does the AIIB include in its loans to borrowers?

While the institution is young, there is an increasing amount of public records available to review. Such documentation was likely to be compiled to meet expectations that the new MDB

would be transparent. Moreover, the inaugural General Counsel of the AIIB, Natalie Lichtenstein, who had a long career at the World Bank including a significant period based in China, has published a book based on her role in drafting the Articles of Agreement of the AIIB, the founding charter of the bank. Her account places the institution squarely within the parameters of public international law.<sup>1</sup>

The conclusion from the analysis below is that the AIIB actually represents a general alignment with other major MDBs in terms of social, environmental and anti-corruption standards, as opposed to norms that challenge the existing order. A review of its major governance and institutional policies shows much resemblance to those of other MDBs. The reason is likely due to the intentional approach of China wishing to demonstrate its capacity to initiate and develop an inclusive multilateral institution that can be widely supported. This may contrast with the development of the BRI, which is perceived as primarily Chinese driven and assumes a less institutional form. The role of law for the AIIB both externally, in terms of its investments, and internally, in terms of governance, is significant. Thus, the AIIB represents a unique convergence of China's position and global interests, which could bode well for its development, mindful of challenges for any new institution.

### The Role of Standards

Before delving into the specific policies and standards of the AIIB, one important feature of the

bank's approach is critical to understand. Contrary to popular misconception, the AIIB, in its early days, has primarily taken a co-financing approach with other MDBs to its projects, as opposed to going at it alone. Of all the approved loans<sup>2</sup> by the end of 2018, 19 of the 30 projects were co-financed.<sup>3</sup> The implication of this early approach is that the AIIB is *motivated* to align its standards as much as is possible with those of the other MDBs, otherwise the coordination of the projects would be difficult for both the lenders and borrowers.

Why is the AIIB taking a co-financing approach? There are a number of possible reasons.<sup>4</sup> For one, co-financing allows the AIIB, as a newly established bank, to expand its operations more quickly and efficiently without yet being at full capacity. Partnering with other MDBs provides reassurance to its clients that it is meeting the necessary standards. Furthermore, as the AIIB does not yet have local offices and networks, it will rely on the regional expertise and capacity of other MDBs to carry out complex infrastructure initiatives. For these reasons, alongside its own projects, the AIIB is likely to continue co-financing with other MDBs for some time to come, with co-financing influencing the standards it adopts.

The role of veterans coming in from other MDBs is a recurring theme that provides an important insight into the early direction of the bank. For example, the foundational AIIB Environmental

<sup>1</sup> NATALIE LICHTENSTEIN, *A COMPARATIVE GUIDE TO THE ASIAN INFRASTRUCTURE INVESTMENT BANK* (2018).

<sup>2</sup> Asian Infrastructure Investment Bank, *Approved Projects*, AIIB,

<https://www.aiib.org/en/projects/approved/index.html> (last visited July 2019)

<sup>3</sup> Asian Infrastructure Investment Bank, *Bond Prospectus*, May 9, 2019.

<sup>4</sup> LICHTENSTEIN, *supra* note 1, at 70.

and Social Framework (ESF)<sup>5</sup> and its related Policy (ESP) are drafted by long-time experts at other institutions. One good example is Stephen Lintner who played a central role in drafting the ESF for the AIIB and previously worked extensively at the World Bank. As a result, much of its language is comparable to the other MDBs. In terms of anti-corruption, the AIIB has set out the Policy on Prohibited Practices<sup>6</sup> which parallels similar policies at other MDBs. Moreover, the AIIB has voluntarily adopted the list of sanctioned firms and individuals<sup>7</sup> under the Agreement for Mutual Enforcement of Debarment Decisions (AMEDD), which means that those debarred at other leading MDBs will be similarly banned from procurement activities by the AIIB. This is yet another example that signals the AIIB's willingness to conform to existing international norms.

As the institution has committed itself to a high-level of standards comparable to other leading MDBs, the real test will be the implementation of such standards as more projects unfold in the coming years. This is particularly challenging in the context of Asia-based infrastructure projects, which are known for their regulatory and logistical complexity. This includes processes to file complaints where standards are violated. Interestingly, the independent Complaints, Resolution, Evaluation and Integrity Unit (CREIU) within the AIIB reports directly to the Board of Directors, a level higher than to the Executive Committee, which is not always the case with other MDBs. This may mean an even higher

standard of accountability for the AIIB, although the impact of a non-resident Board of Directors, which meets intermittently as opposed to working in the same locality, a first among major MDBs, remains to be seen.

There may be a few other features that can help the AIIB in the early days of implementation. Given the significant number of co-financed projects, policies for violation of standards might share mechanisms for filing complaints with other MDBs. In fact, the AIIB may try to defer to other MDBs as it is building up its internal structures and processes. In addition, the AIIB will likely be highly selective in its choice of projects. The bank's technical mandate as written in its charter is strictly economic (focused on investments in infrastructure) rather than having a political dimension (as may be the case with the European Bank for Reconstruction and Development which has a mandate that focuses on countries in political transition). This approach of the AIIB suggests that the institution will avoid unnecessarily difficult political issues where possible. Moreover, in cases where China, its leading shareholder, wishes to embark on more sensitive or complex projects in the broader region, China itself has many other Chinese-tailored platforms for making such investments. As a result of these factors, China will likely avoid using the AIIB for politically sensitive projects.

<sup>5</sup> Asian Infrastructure Investment Bank, *Environmental and Social Framework*, AIIB, <https://www.aiib.org/en/policies-strategies/framework-agreements/environmental-social-framework.html> (last visited July 2019)

<sup>6</sup> Asian Infrastructure Investment Bank, *Policy on Prohibited Practices*, AIIB <https://www.aiib.org/en/policies->

[strategies/operational-policies/prohibited-practices.html](https://www.aiib.org/en/policies-strategies/operational-policies/prohibited-practices.html) (last visited July 2019)

<sup>7</sup> Asian Infrastructure Investment Bank, *AIIB says No to Doing Business with Corrupt Bidders*, AIIB (March 7, 2017) [https://www.aiib.org/en/news-events/news/2017/20170307\\_001.html](https://www.aiib.org/en/news-events/news/2017/20170307_001.html)

### Implications of China's Role

Given this analysis, the question is why has the AIIB developed in such a manner, especially as China has been seen as a potential challenger of international norms in the West? In both creating and taking the lead in building the AIIB, China is well aware of the potential implications and risks if the AIIB is seen purely as a Chinese project (where Chinese interests dominate). For China, the potential implications of the AIIB's worldwide acceptance are significant. It comes at a time when China and the West, including the U.S., are confronted with greater tensions. Despite a desire for more respect on the world stage, Chinese soft power has faced challenges. In the case of the Belt and Road Initiative, local communities affected in the region are starting to raise concerns about the other motives of the BRI, as was the case in Sri Lanka and Malaysia. This is where the AIIB comes in. It is not designed to be an explicit geopolitical initiative, but rather with the aim that it can be a lasting multilateral institution much like the role the World Bank played as the U.S. emerged in the global economy in the last century. AIIB President Jin Liqun once said in an interview,<sup>8</sup> "If we did not operate by very high standards - if the bank was opaque, not transparent, and we had governance problems - nobody would join us."

As with any major power, ultimately it is in China's interest to design institutions that can be seen as inclusive and creating a reasonably fair set of rules so as to bring along others (though some rules may be bent in its favor, which is certainly the case even in the role the U.S. played in establishing the World Bank). This approach is

likely one of the main reasons why key players such as Germany and India have played prominent roles in the development of the AIIB, but not the BRI. Therefore, China is likely to be deliberately cautious and prudent both in the quality of projects and internal governance standards so as to achieve its broader objectives. In this sense, the AIIB is one of the most interesting testing grounds where domestic interest and international factors have the potential to overlap. If it succeeds, it will be one of the markings of China's potential role to be a responsible and constructive leader at a time when the world appears to be fracturing along various lines.

### Future Issues and Questions

The foregoing is not to suggest the road will be without challenges. Even if China sees the benefit of pursuing multilateralism through the AIIB, the question is whether it can have the right type of operating mindset and talent pool in leading such a major global initiative. The AIIB President Jin is certainly one of the more charismatic, internationally respected, and well-spoken leaders (including his fluency in English) who represents China in international platforms. The vice presidents of the bank come from a variety of developed and developing countries, including the U.K., Germany, India and Indonesia. How leadership at the top filters down to the staff who have come from other Chinese government agencies, such as Ministry of Finance, will be worthwhile to observe, especially as they work with an increasingly international staff at the AIIB who themselves come from different cultures and

<sup>8</sup> Wendy Wu and Meaghan Tobin, *China-backed Asian Infrastructure Investment Bank raises US\$2.5 billion from bond sale in London*, SOUTH CHINA MORNING POST, (May 10, 2019),

<https://www.scmp.com/news/china/diplomacy/article/3009779/china-backed-asian-infrastructure-investment-bank-raises-us25>.

MDBs. Other legal and political issues will emerge over time, such as how to deal with questions of sanctions, as Iran is a shareholder of the AIIB, and the institution will continue to rely on the U.S. financial system in its global economic activities, despite the U.S. not being a member. At what point can infrastructure initiatives no longer be clearly delineated from political issues?

One relevant set of questions for policymakers sitting in Washington is the response of the U.S. Since the Obama administration, it has been reluctant to join. But former administration figures such as Jake Sullivan have expressed the view that the U.S. should have taken part, as it can better shape the institution from the inside, rather than the outside.<sup>9</sup> To those who ask why China did not expand its role within existing multilateral institutions rather than to create a new one, the answer is simple: for the U.S. Congress, no matter how much money China and other emerging economies contributed to the World Bank, the U.S.'s voting share could not come at the expense of America's veto privileges. In this sense, some of China's unique influence over the AIIB is no more unique than how larger powers have interacted with the institutions they have created in the past. Japan is another interesting example as it is the leader for the Asian Development Bank, but could choose to join the AIIB along with, or independent

of, the U.S. Whether the U.S. and Japan choose to become involved in the AIIB in the coming years will, without a doubt, shape the policies and standards the institution adopts, as they might then arguably influence China's role more than being outside observers or skeptics.

These are the early days for the AIIB. Having established its foundation, the real test will be in the coming decades, in terms of how its projects develop, how it deals with internal and external violations of norms, and how it manages its range of stakeholders. That being said, its start is relatively promising. At the very least, there is a significant infrastructure financing gap in Asia that remains to be met, and if the AIIB can do so in a sustainable and inclusive manner, that is no small order and achievement. For China, this is likely one of the great trials of whether it can assume the role of enlightened and benevolent power in its re-emergence on the world stage, both in mitigating potential anxieties of its neighbors and in bringing along others towards a more diverse and still coherent global order.

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<sup>9</sup> Jake Sullivan, *The World after Trump: How the System Can Endure*, FOREIGN AFFAIRS (March/April 2018),

<https://www.foreignaffairs.com/articles/2018-03-05/world-after-trump>.