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A Note on the Status of the Asian Infrastructure  
Investment Bank**

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## **World Bank Made in China? A Note on the Status of the Asian Infrastructure Investment Bank**

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### **Abstract**

In October 2013 China proposed to create a new multilateral development bank (MDB), Asian Infrastructure Investment Bank (AIIB). 57 countries, excluding Japan and the United States, decided to join the initiative. China's proposal was generally welcome because of the existing needs of infrastructure investment in Asia. Established in December 2015, the AIIB started operations in January 2016 as the newest regional international financial institution. The AIIB now has 103 member countries, more than the 68 members constituting the Asian Development Bank (ADB). Proposed about the same time as the Belt and Road Initiative (BRI), the establishment of the AIIB demonstrated China's financial strength and willingness to contribute to infrastructure investment globally. The AIIB is open geographically in terms of membership, recruiting staff even from non-member countries. The AIIB has been backing the BRI-related projects less than anticipated. The need to cope with the Covid-19 pandemic makes the AIIB shift its focus toward budgetary support and health infrastructure. This may transform the AIIB into a conventional MDB. Time will tell whether the AIIB gets back to its original goal of investing in infrastructure. The Covid-19 is a factor in increasing the number of AIIB projects. The use of the online meetings for the non-resident board of directors can be seen effective, given that other MDBs had to rely heavily on virtual meetings under the Covid-19 pandemic. The need to focus on the fight against the Covid-19 pandemic implies less financial resources available to support BRI-related projects. If Japan joins the AIIB, it can observe directly the transparency and neutrality of the AIIB operations as well as intervene when necessary. China's high voting share will likely be reduced by Japan's participation, achieving a more healthy power balance within the AIIB. Japan's participation in the AIIB should be analyzed and discussed actively.

**Key words:** Asian Infrastructure Investment Bank (AIIB), multilateral development bank (MDB), Belt and Road Initiative (BRI)

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## 1 Background

In October 2013 China proposed to create a new multilateral development bank (MDB), Asian Infrastructure Investment Bank (AIIB). As in Table 1, 57 countries, notably excluding Japan and the United States, decided to join the initiative. China's proposal of establishing a new MDB was generally welcome because of the existing, significant needs of infrastructure investment in Asia.<sup>2</sup> ADB (2017) estimates that the Asian continent needs US\$26 trillion, or US\$1.7 trillion per year, in infrastructure investment from 2016 to 2030 to keep current growth rates and cope with climate change.

The AIIB was established in December 2015 and it started operations in January 2016. It is worth noting that the AIIB is the newest regional international financial institution. The European Bank for Reconstruction and Development (EBRD), founded in 1991, is the second youngest MDB. Including prospective members, the AIIB now has 103 member countries worldwide, more than the 68 members constituting the Asian Development Bank (ADB) founded in 1966.<sup>3</sup>

**Table 1**                    **57 Founding Member Countries of the AIIB**

<b>38 Regional Member Countries</b>
Australia, Azerbaijan, Bangladesh, Brunei Darussalam, Cambodia, China, Georgia, India, Indonesia, Iran, Israel, Jordan, Kazakhstan, Korea, (Kuwait), Kyrgyz Republic, Lao People's Democratic Republic, Malaysia, Maldives, Mongolia, Myanmar, Nepal, New Zealand, Oman, Pakistan, Philippines, Qatar, Russia, Saudi Arabia, Singapore, Sri Lanka, Tajikistan, Thailand, Turkey, United Arab Emirates, Uzbekistan, Vietnam
<b>19 Non-Regional Member Countries</b>
Austria, Brazil, Denmark, Egypt, Finland, France, Germany, Iceland, Italy, Luxembourg, Malta, Netherlands, Norway, Poland, Portugal, (South Africa), Spain, Sweden, Switzerland, United Kingdom

(Kuwait and South Africa are prospective member countries.)

Source: Compiled by the author based on AIIB (2015) and the AIIB website, as of November 24, 2020

## 2 Characteristics of the AIIB

<sup>2</sup> See also Sun (2015).

<sup>3</sup> <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>

## **2.1 Membership**

The AIIB is a MDB and has a similar structure to that of other MDBs. A clear difference from other regional international financial institutions is its geographical openness in terms of the membership. Other regional financial institutions such as the Inter-American Development Bank (IDB), the Asian Development Bank, and the African Development Bank have a mandate to assist financially their regional developing member countries. Non-regional member countries participate in those institutions, but they are expected to provide financial support to the banks rather than to receive financing as the project sites.

As for the AIIB, it can invest in infrastructure projects even outside of Asia. Hence, somewhat like the global World Bank, its 103 members include non-regional developing countries, where infrastructure projects can be carried out by the AIIB. This reflects the fact that the AIIB was created to help Asian countries with infrastructure and to boost global connectivity and trade.

While other MDBs can usually recruit international staff from the candidates holding the nationality of member countries, the AIIB is free from such restriction and invites candidates from non-member countries. The AIIB employs staff from Japan and the US. This may reflect the fact that the AIIB needs more staff. 350 staff work for the AIIB, compared with ADB's 3500. The ADB located in Manila is more favorable in recruiting international and particularly local staff, compared with the AIIB based in Beijing. In view of the operational cost, ADB has an advantage in being able to recruit English-speaking local staff.

## **2.2 Vision**

Other MDBs generally place higher priority on poverty reduction. The AIIB does not offer concessional financing as the World Bank and seeks viable projects leading to acceptable financial and economic returns. The EBRD, focused on commercial base lending to strengthen private sector activities, is rather close to the AIIB in this aspect of pursuing financial sustainability and not necessarily poverty reduction.

## **2.3 Country Office**

As different from other international financial institutions, the AIIB does not have any country offices. For example, the EBRD and the ADB have 39 and 21 country offices respectively. In the AIIB the project preparation and implementation need to be conducted from the headquarters in Beijing only, especially for AIIB's stand-alone projects. While this style can help the AIIB cut its operational cost, preparation and implementation of the infrastructure projects in Asia and beyond are considered more difficult than the cases where the country offices have close and direct links to the project implementation agencies.<sup>4</sup> Thus, although projects can be approved and implemented for non-regional developing countries, it is rather difficult for the AIIB alone to carry out such projects far from Beijing by a limited number of staff. Co-financing schemes will be more realistic if infrastructure projects are to be planned in AIIB's non-regional member countries.

The AIIB has approved 106 projects, lending US\$21.95 billion in total, less than the AIIB's initial goal.<sup>5</sup> As a comparison, the ADB lent US\$23.7 billion in 2019 alone. A number of the projects approved by the AIIB have been co-financed by the ADB and the World Bank, although the share of the stand-alone projects has been rising from 25% of total in 2016 to 84% in 2020 in term of the amount of financing. Of all the projects approved so far, 55% are co-financed and 45% stand-alone, in terms of the amount.<sup>6</sup> Reliance on co-financed projects may always be needed, given the AIIB's business model of operating without country offices.

## 2.4 Governance Structure

The governance structure of the AIIB is similar to that of other MDBs such as the World Bank, the IDB, and the ADB. The board of governors and the board of directors make important decisions and monitor the management led by the president, for the best interests of shareholder governments. A distinct difference for the AIIB is the absence of a resident board of directors.<sup>7</sup> This also leads to AIIB's lower cost of operation, as the absence of country offices does. The AIIB has 12 directors, and the board of directors

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<sup>4</sup> The author has previously worked in the country offices of the IDB in Costa Rica and Guatemala and also has visited various country offices of the IDB, the World Bank, and the ADB in the Americas and Asia. The practical importance of country offices of MDBs, complementing the function of the headquarters, is evident.

<sup>5</sup> <https://www.aiib.org/en/index.html>

<sup>6</sup> <https://www.aiib.org/en/projects/summary/index.html>

<sup>7</sup> "The Asian Development Bank: The incumbent," *The Economist*, December 17<sup>th</sup>-23<sup>rd</sup> 2016, 63.

meet virtually, not in person.<sup>8</sup> By contrast, the EBRD has 23 directors based in the headquarters in London. The method of virtual meetings became useful as many countries adopted lockdown and the MDBs had to operate virtually under the Covid-19 pandemic in 2020.

## **2.5 Belt and Road Initiative**

As a way to share the Chinese development model globally, China proposed a grandiose scheme called the Belt and Road Initiative (BRI) in 2013, about the same time as it proposed the creation of the AIIB. The idea of the BRI is jointly financing various infrastructure projects between China and Europe through the Middle East and Africa. Many countries in the Latin American and Caribbean region have signed Belt and Road Cooperation Agreements with China, anticipating additional transport infrastructure investment supported by China's policy banks such as China Development Bank and Export-Import Bank of China as well as construction companies. The global scheme is supposed to add to important international public goods.

Since the BRI covers a large geographical area, China alone may not be able to finance a variety of infrastructure projects. Coordination with other countries and international financial institutions such as the World Bank, the Asian Development Bank, and the Asian Infrastructure Investment Bank will be necessary. The World Bank announced its support for the BRI at the Belt and Road Forum for International Cooperation held in Beijing, China in May 2017. Chinese policy banks such as China Development Bank and Export-Import Bank of China, as well as the Silk Road Fund, have mainly been backing BRI projects. Although the AIIB is often considered to be actively assisting the BRI projects, the fact that the AIIB has so far approved fewer projects than the initial target does not satisfy such an assumption. If more financial resources of the AIIB are assigned to the Covid-19 related projects going forward, then the AIIB is even less likely to be supporting the BRI significantly.

## **3 The AIIB at a Crossroads**

The Covid-19 pandemic has deteriorated the world economy and every country's fiscal

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<sup>8</sup> International financial institutions such as the Andean Development Corporation (Corporacion Andina de Fomento or CAF) and the European Investment Bank (EIB) also rely on a non-resident board of directors.

stance as each country tries to cope with the pandemic and to assist economic activities. The MDBs have been approving more and more projects to combat the pandemic, and the AIIB is not an exception. Focusing on providing budgetary support and strengthening health infrastructure, the AIIB has approved projects to battle the pandemic. Such projects amount to about US\$6 billion within the total approved amount of US\$21.95. While the health sector is fundamentally important in development, it was not considered to be a major area for the AIIB whose mandate is to finance productive projects related to infrastructure in energy, finance, transport, water, etc. Whether the AIIB can grow as planned with infrastructure financing depends on the future impact of the Covid-19 pandemic. Wilson (2020) argues that the pandemic led to increased operations by the AIIB, although the focus shifts toward budgetary support and health infrastructure, diverging from the original scope of infrastructure investment.

In dealing with the Covid-19 pandemic, the AIIB may look more like other MDBs such as the ADB or even the World Bank, given AIIB's global geographical openness. We need some more time now to see whether the AIIB will shift its focus back to infrastructure investment or stay focused on a broad range of sectors just like the World Bank.

The AIIB maintains a geographically quite open stance in terms of membership. Any country can be a member of the AIIB as long as they are members of the World Bank and the IMF. The AIIB can serve areas beyond Asia. The AIIB was founded to help contribute to building needed infrastructure. The need to cope with the Covid-19 pandemic has an effect in focusing more on budgetary support and health infrastructure. In the meantime, the number and size of AIIB's projects, co-financed and stand-alone, can increase. While battling the Covid-19 pandemic is the obvious urgent priority worldwide, the original mandate of the AIIB, namely investing in infrastructure will be affected inevitably. That mandate of the AIIB was a clear characteristic differentiated from other MDBs such as the World Bank and the ADB, whose focus tends to be broad on poverty reduction, social programs, education, health, etc.

#### **4 Are There Still Concerns?**

Japan and the US have not participated in the AIIB yet.<sup>9</sup> The absence of a resident board of directors was a concern in that it may give the management led by the president too

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<sup>9</sup> "The Asian Infrastructure Investment Bank: The infrastructure gap," *The Economist*, March 21<sup>st</sup>-27<sup>th</sup> 2015, 19.

much power and discretion. The Covid-19 pandemic has made virtual meetings a new norm worldwide, even within the MDBs. If the effectiveness of online board meetings is secured, the concern over the lack of a resident board of directors can be mitigated.

Another concern is the fact that the voting share of China is high at 26.6% of total.<sup>10</sup>

<sup>11</sup>Since the BRI and the AIIB were proposed almost at the same time, there was another concern that priority of projects may be given to China as the major stakeholder and to the countries favored by China, perhaps those countries that had signed Belt and Road Cooperation Agreements with China. However, the AIIB has not been particularly focused on the BRI. China's policy banks such as China Development Bank and Export-Import Bank of China, as well as the Silk Road Fund, have been the main source of finance for the BRI projects. The current emphasis on the fight against the Covid-19 pandemic will make the AIIB's resources less available for the BRI related projects. As such, the concern that the AIIB may become biased toward certain countries and initiatives favored by China is moderated.

AIIB's President Jin Liqun, reelected to serve until January 2026, has worked for the World Bank and later served as vice-president of the ADB. He is familiar with how the MDBs operate. Ito (2015) and Kawai (2015) argue that the AIIB should use best practices accepted by existing financial institutions such as the ADB and the World Bank. The fact that the AIIB has approved a number of projects co-financed with other MDBs suggests that this expectation may be satisfied to some degree.

## **5 Nothing Ventured, Nothing Gained?**

Japan has not joined the AIIB yet because of the various concerns discussed above. The AIIB has not been particularly focused on financing projects related to the BRI. The fact that President Jin has previously worked for the World Bank and the ADB can be a factor. Through a number of co-financed projects, the AIIB appears to be learning and adopting best practices accepted by existing MDBs such as the ADB and the World Bank. If Japan participates in the AIIB, it will be easier for Japan to voice concerns in cases where best practices should be ignored.

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<sup>10</sup> <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>

<sup>11</sup> See Harris (2015).



The Covid-19 has changed the world radically, and the use of virtual meetings is a new normal worldwide. The absence of a resident board of directors in the AIIB may still be a source of concern that the management is given much power. However, that concern is mitigated as long as virtual meetings serve as effectively as in-person meetings.

Given the ongoing geopolitical tension between China and the US, it is unlikely that the US will prefer to join the AIIB in the near future. Japan always needs global trade to keep the economy active, and thus pursues smooth relations with every country possible. Given the large volume of trade between Japan and China, the bilateral relationship is crucial for both Japan and China. Japan and China are both members of the Asia-Pacific Economic Cooperation (APEC) and the Regional Comprehensive Economic Partnership (RCEP). In that context, Japan's joining the AIIB can be a natural course of action, although that would generate geopolitical influences toward the US. Rather than observing the AIIB and its actions from outside, working together inside of the AIIB can be productive and may help the AIIB adopt best practices when needed. As also discussed by Kawai (2015), Japan's membership will most probably reduce China's voting share, achieving a less skewed balance of power among the member countries and thus moderating concerns that the AIIB would be biased toward the countries favored by China.<sup>12</sup>

China is good at finding common grounds where all parties can function pragmatically. India is an important AIIB member country and is the largest borrower. One might say that the geopolitical tension between China and India is a concern for the future course of the AIIB. From a more optimistic and practical point of view, this is an example where China's pragmatic approach to development and trade encourages productive investment. Japan's membership in the AIIB will not be awkward for China. As the AIIB keeps growing, although now toward the fight against the Covid-19 pandemic, whether Japan should consider joining the AIIB needs to be further analyzed and discussed.

## **6 Concluding Remarks**

China remains anxious to share its development model and expertise with other countries. The ambitious BRI can be seen as an example of China's confidence in achieving development through infrastructure investment. Proposed about the same

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<sup>12</sup> Kawai (2015) anticipates a further reduction of China's voting share if both Japan and the US participate in the AIIB.

time as the BRI, the swift establishment of the AIIB as a MDB demonstrated China's financial strength and willingness to contribute to infrastructure investment globally.<sup>13</sup>

The AIIB is uniquely open geographically in terms of membership. It is recruiting staff from non-member countries as well. The AIIB has been backing the BRI-related projects less than anticipated. The AIIB stands at a crossroads. The need to cope with the Covid-19 pandemic makes the AIIB shift its focus toward budgetary support and health infrastructure. This may transform the AIIB into a rather conventional MDB like the ADB and the World Bank. We will see with time, when the Covid-19 becomes manageable, whether the AIIB gets back to its original goal of investing in infrastructure. In any case, the Covid-19 is a factor in increasing the number of the AIIB projects, both co-financed and stand-alone.

Part of the business model of the AIIB may be leading to less preoccupation as to bias and transparency. The use of the online meetings for the non-resident board of directors can be seen effective, given that other MDBs had to rely heavily on virtual meetings under the Covid-19 pandemic. The need to focus on the fight against the Covid-19 pandemic implies less financial resources available to support BRI-related projects.

Due to the geopolitical tension between China and the US, it is unlikely that the US will join the AIIB in the near future. Given the mutual gains from trade and investment, the bilateral economic relations between Japan and China remain of fundamental importance. Both Japan and China participate in the APEC and the RCEP. If Japan joins the AIIB, it can observe directly the transparency and neutrality of the AIIB operations as well as intervene when necessary. China's high voting share will likely be reduced by Japan's participation, achieving a more healthy power balance within the AIIB. Japan's participation in the AIIB should be analyzed and discussed actively.

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<sup>13</sup> China also demonstrated its leadership in establishing the New Development Bank headquartered in Shanghai in 2014, along with other BRICS member countries: Brazil, Russia, India, and South Africa.

2015

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