

Infrastructure, China and the Making of the AIIB

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International Media Centre – G20 Hangzhou Summit. In 2015, China launched a new Multilateral Development Bank (MDB) named the [Asian Infrastructure Investment Bank](#), (AIIB) created specifically to address the growth imbalance in the Asian region. How can the AIIB be integrated into the Group of Twenty (G20) agenda for economic growth and infrastructure development? How does it interact with existing international and regional organisations? Is there truly a future for this Chinese-led project?

Since 2008, the G20 has boosted its efforts to generate economic growth in the face of the global economic and financial crisis. At the 2014 [Brisbane Summit](#), the G20 committed to a rise of 2% in the G20's GDP by 2018. As a result, constant efforts have been carried out to promote economic growth. One of the ways to promote growth is to invest in infrastructure and in

2014 the [Global Infrastructure Hub](#) was established to do this. At the same time, leaders welcomed the establishment of the World Bank Group's [Global Infrastructure Facility](#) as an additional platform to facilitate public-private investment in infrastructure. While most G20 countries benefit from quality infrastructure, there is an infrastructure imbalance in the developing world that China urged G20 members to address at the Hangzhou Summit. China's presidency built upon the focus given to infrastructure at previous summits and put a greater emphasis on it in this year's G20 agenda. As this comes shortly after the creation of the AIIB and plans for the revitalisation of the Silk Road, this focus can be seen as a genuine concern for economic growth.

The G20's infrastructure agenda

At the Hangzhou Summit, [China's](#) presidency created the theme 'towards an

innovative, invigorated, interconnected and inclusive world economy' with which it hopes to address issues such as slow economic growth, barriers to trade and climate change. In his opening speech to the Business 20, President Xi Jinping committed to the Sustainable Development Goals (SDG) agenda, saying that China is willing to share its wealth with the world. This means that China is ready to commit to sharing its development story with developing countries and carry out development programs in Africa and Asia. To reflect this commitment, at the Hangzhou Summit, China invited the highest number of non-G20 countries in the history of the G20 summit process. In its address to the summit, United Nations Secretary General Ban Ki-moon praised China for its effort to address the SDG agenda and its willingness to foster South-South cooperation as demonstrated by these invitations.

Implementing the SDG agenda means working on development, and building infrastructure is one of the ways to stimulate growth at the local level and ensure better living conditions. A key item

on the G20 agenda is building sustainable infrastructure. Traditionally, the G20 has worked on development policies through international bodies such as the World Bank Group and OECD. More and more involvement with MDBs has been encouraged in recent [years](#). Dissatisfaction with the distribution of power in the World Bank, IMF and Asian Development Bank lead to China financing ambitious projects such as the New Development Bank, a group coordinated by BRICS countries and the AIIB. The AIIB in particular came as the result of profound [dissatisfaction](#) on China's part as a result of not having enough power within the World Bank or Asian Development Bank, with the former dominated by the US and the latter by Japan. This year's G20 communiqué urged a 'focus on infrastructure in terms of both quantity and quality', featuring a section on infrastructure development through eleven MDBs. Paragraph 39 explicitly addressed the need for infrastructure for development, while paragraphs 13 and 29 emphasized both the need and benefit of infrastructure investment in areas such as Africa and the least developed countries.

Considering this, AIIB projects co-funded with the World Bank, ADB, European Bank for Reconstruction and Development or sole funded projects focused on infrastructure are likely to be welcomed by the G20.

Is there room for the AIIB?

Considering that the ADB has been functioning for several years, it could be argued that the AIIB is not a specific project that was necessary in the region. Yet, the gap in infrastructure in Asia is real with the Asian Development Bank Institute putting the needs of the region at around US\$8 trillion between 2010 and 2020. The fear is that the existence of a new bank, rather than having the desired positive effects, could in turn prove detrimental by dividing resources. Thus, it is important to stress that the AIIB has been working cooperatively with existing institutions. The World Bank President has welcomed the creation of the AIIB and a joint-funded project between the AIIB and the World Bank is going to be carried out in the near future. Equally, China looks determined to work with the World Bank within the AIIB,

and has showed support for Dr Jim Yong Kim to serve a second term as President of World Bank.

As far as the current situation is concerned, the AIIB seems to have reached out to major MDBs, such as the ADB, European Bank for Reconstruction and Development, and the World Bank, but has also pursued individual projects. This could indicate that the bank is striving to prove itself as a success story. While it has been successful in gaining the attention of Western countries, such as the UK, Canada and France, and also regional partners, the bank is striving to receive funding from these partners. China, as one of the founding members and the effective leader of the project with the biggest shareholder power, is the major financier of the bank, providing 30.34% of the capital. The remaining 70% of its capital is provided by the other members of the AIIB. However, they are by far less committed to its success than China. The question arises as to whether the bank is sustainable and which countries will follow China in providing financial support. In the absence of any developments, China would have to

bear the costs of the New Development Bank and the AIIB, as well as its commitments to other existing institutions. Moreover, a stagnation of the Chinese economy would automatically lead to a failure of the AIIB as the bank would lack the financial capital to fund any of its development projects. However, it is too soon to predict the failure of the AIIB. Efforts should be focused on boosting cooperation in the region and making sure that the projects carried out under AIIB tenure are in accordance with international regulations, particularly environmental and labour regulations. While the AIIB can provide funds to close the infrastructure gap in Asia by providing loans of [US\\$10-15 billion](#), it still cannot account for the US\$8 trillion gap, for which an investment of US\$747 billion per [year](#) would be needed. The G20's commitment to the SDG agenda and sustainable infrastructure means it should look towards achieving these goals in the Asian region, where it is estimated by the [ADB](#) that 1 billion people are lacking access to electricity and over 1.5 billion lack access to clean water and basic sanitary [facilities](#).

Overall, as far as room for investment in the region is concerned, it looks like there is a place for the investment the AIIB can bring in the region. Nevertheless, the AIIB has not been welcomed by all G20 members, and in particular the US and Japan are concerned about the extent to which the bank is just a means for China to gain dominance in world politics. However, China has been reluctant to assume a leadership role that challenges US dominance and it is still balancing its dual position as a developed country and a developing country. There are more signs of China working within the current system than there are of China opposing it. The AIIB is channeling itself towards working with organisations with a tradition of aiding development, such as the World Bank, but also from China itself, who entered the World Trade Organisation in 2001, and has made efforts to strengthen cooperation and boost economic growth following the 2008 crisis, as can be seen at the G20 Summit in Hangzhou.

A Chinese political project?

What remains to be seen is the extent to which the AIIB is a political project to advance Chinese interests and how it can work in the international system. The degree to which China will look to advance its national interests as regional interests in the AIIB is uncertain. China has a clear interest in the Asian region, competing with the spheres of influence of Japan and the USA, and infrastructure development benefits both China and the countries where the projects are carried out. To China, it represents a way of showing leadership, while to the region, it adds the much-needed investment in infrastructure, thus enabling connectivity and boosting economic growth. In addition, China is responding to the criticism of MDBs extending their project loans on conditions that interfere with the borrowing countries' policies. In this respect, China wants the AIIB to be solely driven by attention to infrastructure development and with a less pronounced political agenda. Concerns from the USA and Japan regarding the governance of the bank and its commitment to international regulations have been mitigated through

the AIIB's appointment of advisors from the [USA](#) and [Japan](#), but also specialists that have links with both the World Bank and the ADB. In addition, the bank is adopting a series of operational policies. These policies set standards on environmental and social policies, yet are not as demanding as those published by the World Bank. The policy on financing stipulates a policy of 'no political interference' according to which the bank cannot interfere in the political affairs of its members. Additionally, the AIIB places no restriction on the procurement of goods and services from any country, with recipient countries free to choose products and services in order to maximise their gains. However, China has not made the AIIB a selfless project and it would be misguided to see it as such. The AIIB claims to have no veto power within its system. However, a voting decision needs the support of three-quarters in order for a policy to pass, and because China has the largest number of shares it can effectively veto a policy if it does not agree with it. It remains to be seen how this will change when new members join the bank.

President Jin Liqun estimated that around 30 new members will join the AIIB, which means that the distribution of shares will look very different in the future. So, it is unsure if China will lose its veto power or not, but considering that the AIIB came into being because China lacked enough power in the World Bank and the ADB, it may not be willing to lose its power in a project of its own making. Another point to consider is that the AIIB plans to be more lenient towards what it calls '[national conditions within developing countries](#)'.

This means that it plans to focus on monetary and fiscal policies only as long as they benefit the projects that are being carried out and are helping to make them sustainable. This is not unexpected, as China has been critical of MDBs intervening too much in the domestic politics of the borrowing countries.

There have been questions as to whether the AIIB can be an alternative to the World Bank. The simple answer is no. This is because the scope of the AIIB is far more restricted than that of the World Bank; while the World Bank has done work and continues to do work on infrastructure, it

also caters for different areas of development to which the AIIB does not plan to respond, such as poverty alleviation and global health. Moreover, the World Bank is also more focused on producing research and tools for measuring development and addressing development issues. In contrast, the AIIB views itself as pragmatic, driven to provide funds for infrastructure development and improvement, and strictly focused on these projects.

Conclusion

In the following years, the AIIB's funded and co-funded projects will commence and their success in boosting economic growth and improving living conditions for the recipient countries will cement its fate. As far as the G20 agenda is concerned, the AIIB is a welcome addition to efforts to boost infrastructure and enhance cooperation with the world. The G20's focus on infrastructure, interconnectedness and sustainable growth is tightly linked with the ambitions of the AIIB, meaning that the two can work together successfully in principle. While

China was in the spotlight at the G20 in Hangzhou as the host country, it did much to emphasise the importance of infrastructure to global growth and to bring the AIIB into discussions. However, as a new project, the AIIB is not directly mentioned in the G20 communiqué. Admittedly, there are paragraphs that refer to the G20 member countries' commitment to building infrastructure. These encourage members to invest and commit to building infrastructure in developing and the least developed countries, with a focus on the African region. Nevertheless, the AIIB's projects play a vital part in developing the growth

potential of the Asian region, something that might feature on the agenda of future G20 summits. Regarding the question of whether it is a Chinese project as opposed to a partnership, the AIIB still has to prove its worth. It is not a dead-end project, but is one that needs to be subjected to careful observation, and the success of the AIIB is bound to the success of its approved projects.

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