



Asian Infrastructure Investment Bank (AIIB)

MUNUC 33

ONLINE



TABLE OF CONTENTS

LETTER FROM THE CHAIR.....	3
HISTORY OF THE AIIB AND COMMITTEE MANDATE.....	5
TOPIC: GLOBAL DEVELOPMENT AND THE ROLE OF AIIB.....	10
Statement of the Problem.....	10
History of the Problem.....	15
Past Actions and Possible Solutions.....	20
Bloc Positions.....	29
Glossary.....	35
Bibliography.....	37

LETTER FROM THE CHAIR

Dear Delegates,

Welcome to Model United Nations of the University of Chicago 33! My name is Scott Smith, and it is my pleasure to welcome you to the specialized committee of the Asian Infrastructure Investment Bank. I am very excited to be serving as your Chair for this committee. Before we dig into the content of the committee, a bit about me.

I am a Third-Year student in the College double majoring in Political Science and Public Policy Studies. I am originally from Oak Park, a suburb just outside of Chicago, and have actually been going to MUNUC since my freshman year of high school. I know what it is like to be a delegate at MUNUC, so please do not hesitate to ask me any questions about MUNUC and the delegate experience. Last year, I served as the Chair of DISEC and the year before I served as the Moderator of UNHCR. At the University, I am very active in other parts of the Model United Nations community, chairing committees for our collegiate conference ChoMUN as well. In addition to Model UN, I am also involved in the political consulting club Chicago Strategies. Aside from school-related activities, I am also an avid baseball fan and take part in as many intramural sports as I can. This past summer, I worked at a consulting firm with various United Nations and Multilateral Development Bank contracts, so I know all too well how the United Nations and financial institutions actually work. If you have any questions about life at UChicago, the world of consulting and politics, or anything else, please feel free to ask me!

This committee and the topic are by no means easy to address. The Asian Infrastructure Investment Bank is a new Multilateral Development Bank shaking up the world of international development, as if international finance and investment was not already complicated enough. I recognize that many of you may be coming in with little to no knowledge of the world of international finance. Let me assure you that this should not be a hindrance to your participation in the committee. Thoroughly reading this background and conducting research on your own should give you enough of a background for your time in committee. Throughout the weekend, I will also be slowing things down

to explain topics and concepts to ensure that debate and resolution writing are as in-depth and informed as possible.

Should you have any questions prior to the committee, please feel free to contact me via the email link on this committee's page on the website. I am very much looking forward to seeing you all in committee this April and am confident that you will all do well in addressing global development and the role of the AIIB.

Good luck and good skill!

Best Regards,

Scott

HISTORY OF THE AIIB AND COMMITTEE MANDATE

The Asian Infrastructure Investment Bank (AIIB)

In October 2013, China proposed the creation of a new regional development bank which would cut through the World Bank bureaucracy and refocus on needed infrastructure improvement in the Asia-Pacific. By 2015, the Asian Infrastructure Investment Bank (AIIB) was a reality, with 57 founding members and initial total capital of \$100 billion.¹ Despite early US skepticism about China's motivations, membership has since expanded and now includes countries from around the globe.²

Initially, the Western world feared that the AIIB would be a tool of Chinese economic power that would disrupt the existing order in the pursuit of national interests. In fact, the AIIB was billed as a program affiliated with Chinese President Xi Jinping's Belt-and-Road Initiative (BRI).³ The BRI is a wide-sweeping infrastructure project that aims to expand trade along the trade routes of the ancient silk road, and has used questionable practices in the past to fund projects.⁴ Because of this connection, the US first encouraged allies to avoid joining the AIIB.⁵ In a surprising turn of events, however, nearly all of Europe joined, as well as Canada, New Zealand, and Australia.⁶ This vote of confidence for the nascent AIIB was supported by China's insistence in absolute transparency and accountability, practices absent from the broader BRI initiative. While China will play an important role and the AIIB's accountability is still largely untested, Xi Jinping separated the BRI from the AIIB shortly after its founding.

¹ Weiss, Martin. Asian Infrastructure Investment Bank (AIIB). CRS Report, R44754, Congressional Research Service, 3 Feb. 2017.

² Ibid.

³ Dollar, David. "The AIIB and the 'One Belt, One Road.'" *Brookings*, 21 June 2015, <https://www.brookings.edu/opinions/the-aiib-and-the-one-belt-one-road/>.

⁴ Tritto, Angela, and Alvin Camba. "The Belt and Road: The Good, the Bad, and the Mixed," April 15, 2019. <https://thediplomat.com/2019/04/the-belt-and-road-the-good-the-bad-and-the-mixed/>.

⁵ Perlez, Jane. "China Creates a World Bank of Its Own, and the U.S. Balks." *The New York Times*, 4 Dec. 2015. *NYTimes.com*, <https://www.nytimes.com/2015/12/05/business/international/china-creates-an-asian-bank-as-the-us-stands-aloof.html>.

⁶ Ibid.

While China dominated the creation of the AIIB, the organization's mission covers the entire Asia-Pacific region, and possibly beyond. According to its charter,

"The purpose of the Bank shall be to: (i) foster sustainable economic development, create wealth and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors; and (ii) promote general regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions."

In other words, the AIIB will (i) fund large public projects, like dams, roads, schools, water treatment, and so on, that (ii) increase interconnectivity within Asia. In contrast to the World Bank, this mandate attempts to emphasize real projects over vague initiatives and so distances the new AIIB from the older generation of IFIs. This is also the reason for the inclusion of the word *Infrastructure* in the AIIBs name. To this end, the AIIB decided to adopt a number of novel operational changes to the traditional development bank setup to increase efficiency and more quickly and effectively get money to those who need it.

Operations

"We're lean, clean, and green, but not mean." This mantra is frequently expressed by the AIIB, especially its president, Jin Liqun. What this quote really means is that the AIIB is committed to keeping costs low and minimizing bureaucracy that clogs the systems of other IFIs, like the World Bank. The AIIB differs from other Multilateral Development Banks (MDBs) in many ways. MDBs are like IFIs in that they are both three letter acronyms. Furthermore, MDBs are defined by the fact that, like IFIs, they are created by multiple countries, but are created for the broad purpose of providing resources and other services to countries for the purpose of development.⁸ The AIIB, unlike other MDBs, does not have a resident board, which greatly limits the cost and number of personnel at the

⁷ "Articles of Agreement." Asian Infrastructure Investment Bank, n.d.

<https://www.aiib.org/en/about-aiib/basic-documents/articles-of-agreement/index.html>

⁸ "U.S. Department of the Treasury." Multilateral Development Banks | U.S. Department of the Treasury, July 2, 2020. <https://home.treasury.gov/policy-issues/international/multilateral-development-banks>.

banking, contributing to its lean and clean persona.⁹ The AIIB has also signed numerous agreements with other MDBs to co-invest on projects, thereby cutting costs the AIIB incurs. The “green” part of the AIIB comes from its commitment to investing in renewable energies and helping countries develop their power systems in order to create a more efficient and sustainable transmission system.¹⁰

The AIIB is committed to helping countries engage in sustainable development. The role of the Bank has also been enhanced in the age of COVID, and the Bank has taken on recent projects aimed at helping countries deal with the negative social and economic impacts of the pandemic. For example, the AIIB recently approved a project in Turkey aimed at reducing the liquidity constraints caused by the COVID-19 crisis and increasing access to finance to corporates and small and medium-sized enterprises (SMEs) operating in eligible infrastructure and other productive sectors (OPS).¹¹ Despite having a lot of fancy words and acronyms, this project is essentially aimed at reducing the negative market impact of the pandemic on businesses in Turkey. SMEs are often the target of development funds, as many emerging economies and markets have large SME sectors and are seen as the lifeblood of the economy.¹²

A non-COVID related project that the AIIB recently approved was a project in Uzbekistan to improve the road network in Bukhara and the Karakalpakstan and Khorezm regions.¹³ While perhaps a dull topic, this type of project is very much in line with the kind of development projects MDBs like the AIIB will finance. Though, is rehabilitating and maintaining roads really that dull? As someone knowledgeable in projects like these, the answer is truly yes. But, this kind of work is very much a necessary part of development, just not the sexy kind of projects that countries will showcase, like drafting a new national decentralization policy for a country.

⁹ Adva Saldinger, “AIIB President Jin Liqun: ‘We’re Lean, Clean and Green, but Not Mean,’” Devex (Devex, April 26, 2017), <https://www.devex.com/news/aiib-president-jin-liqun-we-re-lean-clean-and-green-but-not-mean-90140>.

¹⁰ Ibid.

¹¹ “Turkey: COVID-19 Credit Line Project - Projects.” AIIB, 2020.

<https://www.aiib.org/en/projects/details/2020/approved/Turkey-COVID-19-Credit-Line-Project.html>.

¹² “What Is an SME?,” Internal Market, Industry, Entrepreneurship and SMEs - European Commission, August 30, 2017, https://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en.

¹³ “Uzbekistan: Bukhara Road Network Improvement Project (Phase 1) - Projects,” AIIB, 2020,

<https://www.aiib.org/en/projects/details/2020/approved/Uzbekistan-Bukhara-Region-Road-Network-Improvement-Project.html>.

A full history of projects approved by the AIIB can be found at this link:

<https://www.aiib.org/en/projects/approved/> I would greatly recommend looking through other approved projects in order to gain a better understanding of the exact type of work that the AIIB finances and does. Each approved project will have information about the project, as well as information about who is co-financing the project, and provides important insights into international development work and the inner workings of the Bank.

Perception

The creation of the AIIB was not without controversy, however. Many critics of the bank come from larger Western countries, like the United States, with substantial stakes in other IFIs like the World Bank. These detractors see the AIIB as a Chinese tool to spread influence and dominance across the world. The United States and others saw, or continue to see, the AIIB as an instrumental part of China's One Belt One Road Initiative.¹⁴ One Belt One Road, or OBOR, is a recent part of Chinese foreign policy that focuses on expanding the role of China in Asia, Africa, and Europe, largely through economic and commercial development projects.¹⁵ Because United States foreign policy is often centered on the idea that the US must maintain its post-Cold War role of global hegemon, the nation is understandably wary of any attempt by another government to infringe upon this unipolarity. Western nations have become wary of the normative power that China may express through the AIIB, ignoring the great power they themselves have over the World Bank and other IFIs. Perhaps one of the hardest parts about running a large international development bank is the criticism received from countries who feel threatened by the power of the countries with the largest shares in the bank. That, and actually fulfilling the purpose of the bank.

In addition, as the United States has such a large stake in the World Bank and other IFIs, the creation of a competing development bank, that operates much more efficiently and with less requirements, the AIIB has been seen as a threat to the global development order. The AIIB, being such a large and highly rated institution, has forced many countries and the international financial world to question

¹⁴ Weiss, Martin. *Asian Infrastructure Investment Bank (AIIB)*. CRS Report, R44754, Congressional Research Service, 3 Feb. 2017.

¹⁵ Chatzky, Andrew, and James McBride. "China's Massive Belt and Road Initiative," January 28, 2020. <https://www.cfr.org/backgroundunder/chinas-massive-belt-and-road-initiative>.

the role of international banks and economic organizations. Especially in the age of COVID, some economists have floated the idea of the World Bank and IMF taking a more active approach in helping developing countries recover from the pandemic. One suggestion is that these organizations should utilize Special Purpose Vehicles (SPVs) to help catalyze this process. SPVs, or Special Purpose Entities (SPEs), are entities created for a very specific purpose, often to raise capital in a way that avoids financial risk.¹⁶ This debate about the changing purpose of IFIs is foremost seen in the AIIB because of its freer investment process.

Many nations see the AIIB as a welcome disruption to an old, inefficient system. Especially in developing nations, the World Bank and IMF are often viewed in a negative light because of their stiff conditions and high interest rates that are seen as damaging to the country. The AIIB offers a fresh alternative to these countries, especially many African nations that have been the beneficiaries of Chinese aid for many years prior to the creation of the AIIB.¹⁷ The AIIB changes much of the norm when it comes to MDBs.

You will notice through the rest of the background that we reference many acronyms for various economic and financial institutions. While it may be difficult to keep up with them, you can always reference the glossary if you forget these acronyms or want more of a definition of what these various terms mean.

¹⁶ Cárdenas, Mauricio, Enrique Woll Battistini, Luc Lapointe, Kien Choong, Shann Turnbull, and Juan Pablo Celis. "Emerging Economies Need New Finance, Not Moratoriums by Mauricio Cárdenas." Project Syndicate, May 13, 2020. <https://www.project-syndicate.org/commentary/emerging-economies-need-new-finance-not-moratoriums-by-mauricio-cardenas-2020-05?barrier=accesspaylog>.

¹⁷ Dollar, David. "The AIIB and the 'One Belt, One Road.'" *Brookings*, 21 June 2015, <https://www.brookings.edu/opinions/the-aiib-and-the-one-belt-one-road/>.

TOPIC: GLOBAL DEVELOPMENT AND THE ROLE OF THE AIIB

Statement of the Problem

Abstract

The **Asian Infrastructure Investment Bank (AIIB)** is a new institution. Formed in late 2015, the Bank has rapidly become a force in international finance, filling unmet need during the depths of the COVID-19 pandemic with rapid-fire approval of projects across the globe. In just five years, the AIIB has risen from nothing to one of the biggest **Development Finance Institutions (DFIs)** in operation today. According to conservative forecasts, the AIIB's portfolio will grow to \$120 billion by 2025, a scale that would surpass all DFIs other than the **World Bank**.¹⁸ Explosive growth, however, brings challenges. How ambitious a mission will the AIIB pursue? What countries will lead? How will funds be raised? Which safeguards and international standards will be followed, and which will fall by the wayside? Delegates in this committee will be pushed to answer these questions and more. In reading through the rest of the background guide, keep these broader questions and ideas in mind.

Development Finance: An Introduction

The idea is simple -- rich countries should help poor countries. Aid may take various forms, from direct cash transfers to reworking of a currency system or the financing of a school, but at its core international development aims to help the less fortunate. The donors (generally countries) may contribute individually or as a group and may fund projects on a one-off basis or through dedicated institutions. **Multilateral Development Banks (MDBs)** like the World Bank and AIIB are financial institutions that facilitate these transfers.

MDBs offer two broad types of assistance: financial and technical. Financial assistance usually takes the form of loans or equity investments in projects that would not otherwise be funded but have large social value. For example, a MDB may fund the construction of a road system in an impoverished country to jump-start local economic development. Financial assistance may also take

¹⁸ Weiss, Martin A. "Multilateral Development Banks: General Capital Increases," CRS Report R41672.

the form of helping private investors (e.g., individuals) invest in developing countries. In contrast, technical assistance has nothing to do with money. Instead, MDBs will offer their expertise in financial matters to a developing country for little or no cost. For example, a MDB may offer to teach a developing country how to raise money by selling bonds in the international market or may offer reports on the strengths and weaknesses of the country's legal system.

This concept of better-off countries helping other countries develop entered its modern form in the wake of World War II as the international community aimed to rebuild war-torn Europe. The first DFIs were the so-called **Bretton Woods Institutions**, the World Bank and the **IMF**, which supplemented the UN system with new instruments of global finance. The World Bank, a MDB, was given the dual mandate of reconstruction and poverty reduction, while the IMF, not a MDB, facilitates global monetary cooperation.¹⁹ These institutions, however, were dominated by the West, with the United States having sole veto power and control over the office of the President.²⁰ Projects that extended US power were quickly funded; those that enabled their opponents were tabled.²¹ As the rest of the world developed, however, this began to change.

Starting in the 1970s, a new movement calling for greater representation of the developing world altered the development landscape. Regional development banks, MDBs primarily funded and run locally, began to arise. Examples include the African Development Bank (AfDB) and the Islamic Development Bank (IsDB). This transition to locally focused development banks also brought growing skepticism of the traditional MDB model, which until this point had focused entirely on financial assistance. The 1970s saw even the first-generation incision of the World Bank pivot to focus more on technical assistance which was broadly seen as more equitable.²²

¹⁹ "Who We Are." World Bank. November 5, 2015. Accessed August 21, 2020. <https://www.worldbank.org/en/who-we-are>.

²⁰ Kapur, Devesh, Richard Charles Webb, and John P. Lewis. *The World Bank: Its First Half Century*.

²¹ Toussaint, Eric. "The World Bank: a never-ending coup d'état. The hidden agenda of the Washington Consensus."

²² Lateef, K. Sarwar. "Evolution of the World Bank's Thinking on Governance." World Development Report Background Paper; World Bank, 2016. <https://openknowledge.worldbank.org/handle/10986/26197>.

China and the MDBs

Since membership of the World Bank requires a country to already be a member of the UN, China was excluded from MDB aid until 1971 as Taiwan held the China seat at the UN. Even though it was eligible to become a member of the World Bank at that point, China declined all invitations to join the Bank until 1980 on the grounds that such institutions were tools of Western power. After the death of Mao in 1976, though, reformist governments started to track a new path for China with respect to development: unabashed pragmatism.

As a developing country, China was and continues to be eligible for all sorts of help from institutions like the World Bank. China's policy has been to i) voice displeasure with the way these Western institutions function while ii) taking full advantage of what is offered. While international aid has not been essential for China's rapid development over the past 40 years, it has helped.²³ China has graduated to the level of a middle-income country, and today retains deep ties with MDBs across the globe. It has moved from being only a borrower (a recipient of aid) to a combination borrower-lender, investing in less fortunate countries while allowing others to invest in the still-underdeveloped inner provinces. China has made extensive use of technical assistance from these international institutions, and over the past decade has moved to take more of a leadership role. Today, China is a superpower, and, despite some yet-unmet domestic need, is in a position to give back as a lender in the international markets.

China's ambitions, however, have faced resistance from the establishment. Despite the fact that China accounts for 15-20% of the global GDP, the United States has blocked proposals to allow China's voting share at the World Bank and IMF to increase above the current levels of about 5%.²⁴ ²⁵
²⁶ The US has also blocked China's involvement in the leadership of the largest regional development bank focusing on Asia, the **Asian Development Bank (ADB)**, which the US runs jointly with Japan.²⁷

²³ Gåsemeyr, Hans Jørgen. *China and Multilateral Development Banks: Positions, Motivations, Ambitions*. Oslo: Norwegian Institute of International Affairs (NUPI), 2018.

²⁴ "2020 GDP Data," 2020. <https://data.worldbank.org/>.

²⁵ Morris, Scott, and Mamoru Higashikokubaru. "AIIB Voting Power: How Does It Compare to the Other MDBs and What Does It Mean for the US and Japan?" Center For Global Development, July 9, 2015. <https://www.cgdev.org/blog/aiib-voting-power-how-does-it-compare-other-mdb-and-what-does-it-mean-us-and-japan>.

²⁶ Nelson, Rebecca A. and Martin A. Weiss "IMF Reforms: Issues for Congress," CRS Report R42844.

²⁷ Ibid.

This standoff reached a tipping point in 2015 when the US Senate balked at yet another proposal that would increase China's power in the IMF.²⁸ This left China in a tough position, excluded from the existing order and eager to step up as a leader in development.

The Formation of the AIIB

China and its allies' answer to being blocked from the existing order was to create World Bank competitors. By 2015, two new MDBs were announced, along with a plethora of related programs and organizations with similar goals. Firstly, the **New Development Bank (NDB)** (AKA the BRICS Bank), a joint project of Brazil, Russia, India, China, and South Africa, and secondly the AIIB. Combined, these programs challenge the existing order. However, to what extent this new generation of multilaterals will act independently remains an open question.

Initially, the creation of these new institutions was viewed along the lines of usual diplomatic rivalries -- the West was broadly skeptical that the new banks would be transparent and act ethically, while China's allies in the developing world were eager to have competition in debt markets and potentially less stringent compliance requirements. Given that the AIIB was an offshoot of the **BRI**, the US viewed it as a threat towards its own efforts in the region, including the ADB and **TPP**. The blocs began to falter, however, when in 2015 the United Kingdom surprised the world and announced its intent to join the AIIB.²⁹

Over the following years, the AIIB's membership has grown to include much of Europe, Asia, Oceania, and Africa. Some South American countries have joined, as has Canada. This puts the "challenge to the status quo" narrative into question -- if the usual suspects, except Japan and the US, join in, what role can the AIIB fill?

This is the central question of this topic -- what is the role of the AIIB in the context of other MDBs and international development? How should the AIIB align itself with respect to other MDBs, and what should its general strategy be for the future? The AIIB is uniquely placed to reform and change

²⁸ Ibid.

²⁹ Treasury, HM. "UK Announces Plans to Join Asian Infrastructure Investment Bank." GOV.UK. GOV.UK, March 12, 2015. <https://www.gov.uk/government/news/uk-announces-plans-to-join-asian-infrastructure-investment-bank>.

the way in which international development is carried out. Being such a new financial institution with significant economic backing, the traditional system of international development does not have to be the future as well.

Over the first four years of its operation (2015-2019), the AIIB played it safe and has seemingly stayed true to its promises of transparency. The majority of the projects it funded were done as “**co-investments**” with existing banks and private investors with established track records -- for example, in 2016, the AIIB co-financed a power plant in Myanmar with the ADB, another MDB (the IFC), and various commercial banks.³⁰ This increased global confidence in the AIIB, as it would have to adhere to existing standards.

This is not necessarily the end form of the bank’s projects, though. By co-investing, the AIIB was gaining invaluable knowledge about the development process. More recently, during the height of the COVID crisis, the AIIB started to branch out on its own for the first time, radically changing its activity to meet immediate needs across the world with its own capital. For example, the AIIB created a \$500m **credit line** for Turkey.³¹ This new approach to projects was a massive departure for the bank -- suddenly, it has begun engaging in unusual business (credit lines were not previously offered) on its own. Was this period a one-off? Or has the AIIB’s experience ramping up new self-run operations during COVID been the tipping point for the institution to step up and fully challenge the existing development order? Based on these questions, should the AIIB choose one of these paths (this period being a one-off or continuing these types of operations) over the other?

³⁰“Myanmar: Myingyan 225 MW Combined Cycle Gas Turbine (CCGT) Power Plant Project - Projects.” AIIB, n.d. <https://www.aiib.org/en/projects/details/2016/approved/Myanmar-Myingyan-225-MW-Combined-Cycle-Gas-Turbine-Power-Plant-Project.html>.

³¹ “Turkey: COVID-19 Credit Line Project - Projects.” AIIB, n.d. <https://www.aiib.org/en/projects/details/2020/approved/Turkey-COVID-19-Credit-Line-Project.html>.

History of the Problem

Understanding the challenges facing the Asian Infrastructure Investment Bank (AIIB) today requires historical perspective. Unlike the development banks of the first generation, the AIIB partially defines itself by what it is not, namely that it is not the World Bank. In geographic focus, types of projects funded, approach to global capital markets, feelings towards safeguards, leadership style, and many other areas, the AIIB can offer a refreshingly new approach to development finance. But is this what its shareholders want? Only by examining the history of the field can delegates appreciate the unique and nuanced place of the AIIB, a necessary requisite for driving the policy of its future.

History of Development Finance

In Bretton Woods, New Hampshire, 1944, the countries that would found the UN just one year later ushered the world into a new economic era. Along with its sister institution the International Monetary Fund (IMF), the World Bank became the first global experiment in the charity system of International Development Finance. The institutions provided grand changes to the world economic order: for the first time on a global scale, financial disputes would be resolved in legal processes rather than war, loans would be available on forgiving terms to prevent crises like the Great Depression, and the richest countries would band together to help the poorest.

The architect of this new system was John Maynard Keynes, an economist with a vision for a global economy protected by strong institutions and policymakers. In the wake of World War II, the international community was desperate to rebuild and eager for new ideas that might prevent similar future conflicts. Keynes sold the World Bank and IMF as accomplishing both tasks.

From the 1940s-70s, the World Bank and IMF stood alone, facilitating reconstruction in war-torn Europe and Asia while financing projects around the world to stop the spread of communism. In this first period of development finance, the landscape was dominated by the United States. As the Cold War drew on, however, the field began to shift focus. Where the first International Financial Institutions (IFIs) had focused on large-scale financing, a growing movement -- the *Washington Consensus* -- began to demand greater political oversight over funded projects.

In the aftermath of the Vietnam War, the World Bank, led by former US Defense Secretary Robert McNamara, refused to provide aid to the country on what was later revealed to be political grounds.³² Increasingly, aid from IFIs came with stiff conditions, requiring political reform and the opening of markets to international investors, that revealed an “appetite for micromanagement” at the expense of developing countries.³³ Increasingly, the World Bank required reforms that some alleged were shallow attempts to remake the developing world.³⁴ Increasing skepticism surrounding perceived US and European hegemony over the World Bank and IMF lead to a new wave of regionally-controlled and focused development institutions.

Across the World, a new generation of development banks began to arise. These institutions are distinguished by being regionally controlled and focused. From the African Development Bank (AfDB) to the Islamic Development Bank (IsDB) and the New Development Bank (NDB), developing countries around the World have taken an increasing role in directing the flow of international aid and financing. Today, while the old-guard institutions like the World Bank continue to play a large role, the development finance landscape is increasingly globalized.

A New Generation of Regional Institutions

Starting in the 1970s, a new generation of development banks began to arise. These institutions, while diverse, are characterized by a general skepticism towards the effectiveness of US-dominated global institutions like the world bank, instead focusing on the importance of local funding. From the African Development Bank (AfDB, founded in 1964) to the Islamic Development Bank (IsDB, founded in 1975) and the Asian Development Bank (ADB, founded in 1966), developing countries around the World began to take an increasing role in directing the flow of international aid and financing.³⁵

³² Kapur, Devesh, Richard Charles Webb, and John P. Lewis. *The World Bank: Its First Half Century*. Washington, D.C.: Brookings Institution, 1997.

³³ “World Bank and IMF Conditionality: A Development Injustice.” *World Bank and IMF Conditionality: A Development Injustice*. Eurodad/Oxfam, June 2006. <https://eurodad.org/files/pdf/454-world-bank-and-imf-conditionality-a-development-injustice.pdf>.

³⁴ Bevanger, Lars. “Experts Call for Poverty Action,” June 24, 2002. <http://news.bbc.co.uk/2/hi/business/2063247.stm>.

³⁵ Engen, Lars, and Annalisa Prizzon. *A Guide to Multilateral Development Banks*. Overseas Development Institute, 2018.

These new banks were (mostly) locally funded and locally controlled, operating at a smaller scale than the World Bank but better able to adapt to a region's particular needs.³⁶ The project capabilities of these new banks also differed from previous versions of the MDB model -- instead of large-scale infrastructure, more focus was placed on highly visible social investments like education programs and job funding.³⁷ In turn, this pushed the established MDBs to focus on new product areas, including technical training and development indicators, that are mainstays today.

In addition to Multilateral Development Banks, this period also saw the rise of **Bilateral Development Banks** which are essentially just development banks run by a single country. The MDB concept had been a successful tool of soft power abroad and so was replicated across the world. These banks are of equal financial importance to the MDBs but, since they are run by one country, are of less interest to students of international relations.



China and the MDBs

China's formal involvement with the International Financial System only began in the 1970s. Until Mao's death in 1976, interaction with a market-driven institution like the World Bank was

³⁶ Skeptics might argue that regional development banks are vehicles through which regional powers like Saudi Arabia or Brazil can exert influence over their neighbors in a direct parallel to the criticism levied against the World Bank.

³⁷ Ibid.

anathema.³⁸ However, reformist governments in the 1970s eventually decided to set a new course for China -- pragmatically using all available resources while remaining skeptical rhetoric.

China joined the World Bank as a low-income country.³⁹ It received loans for a variety of projects, particularly in its underdeveloped interior provinces, and quickly became a development success story. However, MDBs were not the reason nor even a main driver of China's rapid industrialization.⁴⁰ They instead played a minor role, facilitating foreign investment in areas that the state-run economy had overlooked and offering no-cost training to Chinese officials in everything from central bank reserve management to proper systems of legal oversight of businesses. The fact that the MDBs involvement had little overall impact on the rate of China's rise, however, does not indicate that China was not important for the MDBs in return.

MDBs like investment in China because, despite communist rhetoric, large businesses are strong. In fact, China has accounted for a plurality of loans from the World Bank in numerous years from 1976 to the present.⁴¹

China's relationship with the first-generation MDBs, then, has been useful but not game changing. It is a large borrower from institutions like the World Bank and, despite occasional disputes, works closely with international monetary authorities like the IMF. As China developed, however, it has strived to take more of a leadership role in international development finance.

China first developed its own Bilateral Development Banks in order to finance strategically advantageous projects domestically and abroad. It quickly moved on to growing its influence in existing MDBs. At the World Bank, China formally graduated to middle-income country status and began contributing as a lender. It lobbied extensively for inclusion of more Chinese nationals among the Bank staff and was granted a seat on the Executive Board. In the second-generation MDBs,

³⁸ Additionally, most MDBs piggyback on the UN when considering new members, imposing the restriction that only members of the UN can apply to be members of their banks. # Because the People's Republic of China did not have a seat in the UN until 1971, it was therefore ineligible for most membership.

³⁹ Gåsemyr, Hans Jørgen. *China and Multilateral Development Banks: Positions, Motivations, Ambitions*. Oslo: Norwegian Institute of International Affairs (NUPI), 2018.

⁴⁰ Ibid.

⁴¹ Ibid.

China quickly took a leadership role. Today, China is one of the largest lenders to both the African Development Bank and Inter-American Development Bank.⁴²

These ties serve the same strategic interests that the US pursued when first developing the MDB system -- China can help countries that, in turn, will trade with China or otherwise will become stronger allies. Lobbying from the domestic construction industry, a significant exporting industry from China, has helped encourage increased contributions as well.

Despite their best efforts, however, China's quest for leadership on a global scale has been impeded. Traditionally, the US wields control over the World Bank, holding nearly enough of the votes to veto substantive changes to the agenda and conventionally nominating the President. The US secures this position through a tacit agreement with Western Europe and Japan, and in return the US supports Europe's pick for President of the IMF and Japan's pick for the President of the Asian Development Bank, respectively. China has long decried this system, calling for greater representation for both the developing countries and the middle-income **BRICS** (Brazil, Russia, India, China, South Africa). However, during even working within this regime China's efforts to expand influence in development finance have been stalled. The US and its allies have continually balked from resolutions that would increase China's voting share at the institutions they respectively control.⁴³ China's response? Starting new institutions that they can control with BRICS, the New Development Bank (NDB) and, in Asia, the AIIB.

⁴² Ibid.

⁴³ Truman, Edwin. "China, the United States, and Damage to the IMF." Realtime Economic Issues Watch. Peterson Institute for International Economics, September 4, 2018. <https://www.piie.com/blogs/realtime-economic-issues-watch/china-united-states-and-damage-imf>.

Past Actions and Possible Solutions

The AIIB is an incredibly new institution, but its limited history provides an important context as to how the Bank can and should move forward. This section will also seek to introduce and provide possible answers to important questions that delegates should seek to address throughout the conference. There are many areas in international development that are still being debated, and as a young institution, the AIIB is uniquely positioned to explore these areas and chart a new path for the actions of MDBs and the role of countries and institutions in international development. Some of the questions that delegates should keep in mind include:

- Issues of mission of the AIIB
- Issues of leadership at the AIIB
- Issues of control over the AIIB
- Issues of focus that the AIIB should or should not have
- Issues of safeguards at the AIIB
- Issues of funding for the AIIB

Past Actions of the AIIB

The AIIB first began approving projects in 2016, not too long after the Bank became a reality in 2015. In the first year of financing, the AIIB set a loan target of USD1.2 billion.⁴⁴ However, the Bank surpassed this target, financing eight projects for a total of just under USD1.7 billion.⁴⁵ Of these eight projects, six were co-financed with other IFIs and two were stand-alone AIIB projects.⁴⁶ Interestingly, the two stand-alone projects were some of the more expensive ones, with an energy project in

⁴⁴ "AIIB Hits Its First-Year Lending Target". 2020. *Nikkei Asian Review*.

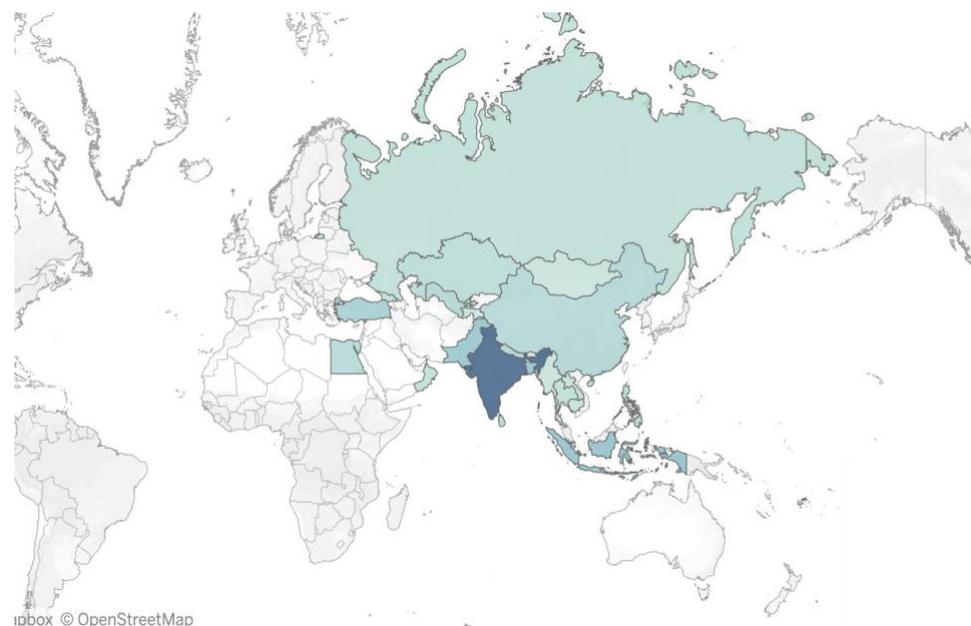
<https://asia.nikkei.com/magazine/20170126/Politics-Economy/AIIB-hits-its-first-year-lending-target>.

⁴⁵ "Project List - Project - AIIB". 2020. *Aiib.Org*. <https://www.aiib.org/en/projects/list/index.html>.

⁴⁶ *Ibid*.

Bangladesh being approved USD165 million and a transport project in Oman being approved USD265 million.⁴⁷

Since the AIIB first began approving financing, the Bank has approved financing to 90 projects totaling just under USD20 billion.⁴⁸ Of these 90 projects, 37 were standalone while 53 were co-financed.⁴⁹ In addition, the AIIB has financed projects in over 29 different countries and across more than six different sectors in the past five years.⁵⁰ These sectors include energy, financial institution, information and communications technology, transport, urban reform, and more.⁵¹ Although the AIIB has been vocal and deliberate in engaging in co-investing, it also frequently engages in standalone projects. In 2019, the Bank financed more than 60% of its projects alone and was steadily decreasing the percent of the projects it co-financed between 2016 and 2019.⁵²



53

Although the AIIB has been engaged in many different projects across a variety of sectors, the goal of the Bank has been clear in improving the living conditions of people the projects are aimed at and

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Ibid.

⁵⁰ Ibid.

⁵¹ "Project Summary - Projects." AIIB, n.d. <https://www.aiib.org/en/projects/summary/index.html>.

⁵² "Project List - Project - AIIB". 2020. *Aiib.Org*. <https://www.aiib.org/en/projects/list/index.html>.

⁵³ "Interactive Map: The Asian Infrastructure Investment Bank." Coalition for Human Rights in Development, July 2, 2018. <https://rightsindevelopment.org/project/the-asian-infrastructure-investment-bank/>.

helping communities develop. Below is a map of the AIIB's financing history. The darker the color a country is the more the AIIB has invested in it. As is obvious, the AIIB has invested in India the most, followed a bit behind by Egypt.

Future of the AIIB

The fifth year of the AIIB's operations marks its final year in the "start-up" phase. During this phase, the AIIB was committed to developing their core governance frameworks, policies, sectoral strategies, and basic financing products.⁵⁴ Upon the conclusion of this year, the Bank will also deliver the mechanisms to monitor and evaluate the progress of the implementation and results of the programs and investments it engaged in. Its future outlook has been emphasized by a commitment to continue expanding the operations of the Bank, based on robust multilateral governance, high standards, and sound banking principles.⁵⁵ As the AIIB transitions from the start-up phase, its focus will shift from internal strategy development to the actual implementation of operations. However, it is also still committed to pursuing new opportunities, and will be conducting thematic and regional analyses to explore these opportunities and their viability.

The AIIB has also remained committed to focusing on development in Asia, though it recognizes the importance and value of non-regional members of the Bank. As such, there has been great discussion of slowly building capacity to deliver projects to non-regional members who may play a key role in addressing climate change and furthering the development of Asia. The Bank has also committed to expanding its product offerings by increasing its capability to promote sustainable projects that are more complex. These new products will include a credit guarantee and variable spread loan offerings.⁵⁶

The AIIB faces some challenges in terms of its future investments, however. The COVID-19 pandemic has exacerbated many underlying difficulties that countries face, including repayment ability, lower infrastructure spending, market liquidity, and fundraising. The mid- and long-term effects of the pandemic on the global economy are still uncertain, but it is clear that the supposed

⁵⁴ "OUR TOMORROW - 2019 AIIB Annual Report And Financials". 2020. *Aiib.Org*. <https://www.aiib.org/en/news-events/annual-report/2019-our-tomorrow/index.html>.

⁵⁵ Ibid.

⁵⁶ Ibid.

“V” shaped recovery that some economists were pushing at the beginning of the crisis is far from possible in a singular country, much less the world at large. The AIIB will face the dual issue of lacking funding and certainty while also being even more needed by countries with fragile infrastructure that have been less prepared to handle the effects of the pandemic. However, the AIIB maintains that it is their duty to help these countries and to keep investing in infrastructure.⁵⁷

In the future, the AIIB is hoping to expand its offerings to provide support for project preparation and implementation, and support for the development of infrastructure as an asset class.⁵⁸ Throughout the past five years and into the future of the Bank, the AIIB is committed to maintaining accountable management, “lean” practices, and a growth mindset.⁵⁹ Below is a promotional image used by the AIIB characterizing the mission of the Bank.



⁵⁷ "OUR TOMORROW - 2019 AIIB Annual Report And Financials". 2020. *Aiib.Org*. <https://www.aiib.org/en/news-events/annual-report/2019/our-tomorrow/index.html>.

⁵⁸ Ibid.

⁵⁹ Ibid.

⁶⁰ Ibid.

Areas of Debate for Future Development

Despite the AIIB's resolve in some issues of development, there are still a few questions that have yet to be answered that were asked at the beginning of this section. In this subsection, we will seek to go through these questions and offer some insight as to how they may be addressed.

Issues of Mission

The AIIB has been committed to helping clients help their populations since its inception. However, it is a question of how the Bank should help clients that must be addressed. Traditionally, the AIIB, and other MDBs, have focused their development financing on infrastructure projects, with the idea that helping build quality, sustainable infrastructure will lead to social and economic improvement.

However, there is also a question of directly investing in communities themselves for the sole purpose of social betterment. Instead of investing in roads and bridges, the AIIB could invest in, for example, a governance project that reconstructs a local government council to include more women and people from marginalized communities. This type of investment though, comes with its own challenges. Forcing other governments and communities to adopt a standard that may not be accepted could lead to great problems for the Bank. In the case of the example of the reformation of the local government council, it could be that if this change occurs, the council could lose all legitimacy and would not be sustainable. However, this also begs the question of how much the AIIB and MDBs should play a role in seeking to bring social and economic protections and access to groups that may be discriminated against.

MDBs have struggled for many years attempting to tackle this issue of mission. Investing in sustainable infrastructure projects has traditionally been the safer option, as it allows the Bank to still accomplish parts of its mission, including different environmental and development goals, while ensuring that the projects are sustainable, and the community is invested in them as much as the Bank is invested in the community. However, is it time to buck this norm and take a more active role in development and the pursuit of social good?

Issues of Leadership and Safeguards

The AIIB has been committed to co-investing in projects since its inception as a means of maintaining its “lean” organizational structure. Co-investing also means that the AIIB is not the only MDB at risk and is offered greatly protection by the other IFIs who are also committed to the project. However, co-investing also offers its own set of issues. Each MDB and IFI engaged in a project have their own mission and set of objectives. Although these missions and objectives often intersect, it can still be a struggle to get the organizations to cooperate. As I am sure you all will realize by the end of the conference, it is hard to work with others.

The AIIB has also, however, been fairly committed to pursuing stand-alone projects as well. Of the total number of approved projects, about 46% of them have been stand-alone.⁶¹ Stand-alone projects allow the AIIB to take a more decisive role in how the project is carried out. However, it also means that the Bank takes on more risk because it does not have co-financiers to rely on. By pursuing stand-alone projects, the AIIB is often better able to ensure that its goals and mission are met. An important question that delegates should consider is whether the AIIB should continue to take more risk in the post-pandemic international economy by pursuing more stand-alone projects or should continue to have the majority of its projects be co-financed.

Issues of Control

The question of control over the AIIB has been a hot-button issue since the idea of it was first discussed in 2013. As has been said in previous sections, the AIIB has been seen by some, namely the United States, as a nefarious tool by China to pursue its foreign policy objectives. This argument is aided by the fact that China has almost 27% of the voting share of the Bank even though there are just over 100 member countries.⁶² ⁶³ However, this is not too far from the World Bank, where the United States has almost 16% of the voting share despite there being 189 member countries.⁶⁴ China

⁶¹ "Project Summary - Projects - AIIB". 2020. *Aiib.Org*. <https://www.aiib.org/en/projects/summary/index.html>.

⁶² "Members Of The Bank - AIIB". 2020. *Aiib.Org*. <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

⁶³ "AIIB Reaches 100-Member Milestone - News - AIIB". 2020. *Aiib.Org*. <https://www.aiib.org/en/news-events/news/2019/AIIB-reaches-100-member-milestone.html>.

⁶⁴ 2020. *Pubdocs.Worldbank.Org*. <http://pubdocs.worldbank.org/en/795101541106471736/IBRDCountryVotingTable.pdf>.

has such a high percentage of voting shares at the AIIB though because it has the greatest total subscriptions to the Bank, totaling almost USD30 billion and making up over 30% of the total amount of subscriptions to the Bank.⁶⁵

An idea that has been floated, however, is changing the structure of the Bank so that no country has more voting power than another. Despite what a country may contribute to the Bank, all members would have the same voting share and would have equal power in determining the trajectory of the Bank. This idea of “**one person one vote**” is key in democracies like the United States. However, the relevance of this concept in MDBs has been questioned. Why should the Cook Islands, which makes up 0.0005% of the total subscriptions to the Bank, have the same voting power and voice as China?⁶⁶ Does their 0.1468% of the voting share seem reasonable, or should they have greater power to guide the AIIB?⁶⁷



Issues of Focus

The focus of the AIIB has, since its beginning, been Asia. After all, it is the Asian Infrastructure Investment Bank. However, as was said earlier in this section, the AIIB also recognizes the importance and role of other regions in directly or indirectly contributing to the development of Asia. In a globalized world, increased interconnectedness between countries and regions means that what may happen in Latin America could also impact what may happen in Asia. As such, although the AIIB

⁶⁵ "Members Of The Bank - AIIB". 2020. *Aiib.Org*. <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

⁶⁶ Ibid.

⁶⁷ Ibid.

has traditionally only financed projects in the region, it has recognized the possibility of financing projects elsewhere as well. However, because the funding of the Bank is limited, financing in other regions may mean that some financing could be taken away from Asian countries. Delegates should consider where the AIIB should invest in the future. Could non-regional projects be helpful in expanding the mission of the AIIB, or should it focus its efforts on Asia alone?

Issues of Funding

The COVID-19 pandemic has made the issue of funding a key priority for not only the AIIB, but other MDBs as well. Because of a lack of market liquidity, the AIIB is going to have a more difficult time raising funds on favorable terms from the capital market.⁶⁸ Furthermore, the pandemic has also jeopardized the ability of the Bank to raise funds from private capital for projects.⁶⁹ Finally, as country borrowers face greater financial challenges because of the pandemic and are increasingly at risk to be unable to repay the bank, lower infrastructure spending puts the Bank's long-term business outlook at risk.⁷⁰

There are a few options to address this issue of funding however, such as increasing **permanent capital commitments** of member countries. By increasing permanent capital commitments, the AIIB can rely on a steady flow of capital to invest in projects. However, increasing commitments could also put member countries at a risk that they do not want to take and require them to pay more than they are willing to, causing the credibility and backing of the Bank to fall.

Another other option to address the issue of funding is to increase the use of novel financing structures such as **CAT bonds**. CAT bonds, or catastrophe bonds, are designed to raise capital during a disaster. CAT bonds are high-yield and provide consistent interest payments to investors, making them good for both the issuer and the investor.

⁶⁸ "OUR TOMORROW - 2019 AIIB Annual Report And Financials". 2020. *Aiib.Org*. <https://www.aiib.org/en/news-events/annual-report/2019-our-tomorrow/index.html>.

⁶⁹ Ibid.

⁷⁰ Ibid.

The long-term future of the AIIB is unclear in terms of funding, and how best to raise capital to continue financing projects.

Bloc Positions

Blocs within the AIIB are not particularly strong. Members are all still trying to figure out how to make the Bank work for them, and, as the AIIB's abilities develop, members interact with it in new ways. Despite this current flux, however, blocs within the AIIB can broadly be visualized along two axes: first, a country's level of development and second, their relationship with China.

Development Axis

All development banks distinguish between high-income donor countries and low- and middle-income borrower countries. Donor countries contribute capital to be used for loans, and borrower countries apply for those loans and utilize the donated capital. There is not necessarily a clear division between donor and recipient countries in all cases, however. The AIIB, for instance, does not publish a comprehensive list of borrower countries, rather deciding eligibility on a case-by-case basis.⁷¹ The World Bank is comparatively much clearer, with specific data-driven levels that determine a country's eligibility to become a borrower.⁷² Middle-income countries like China may in some cases be both a borrower and a donor, adding to the complexity.

In broad strokes, more developed countries (donors) want to maintain strict oversight, maximize the social impact of their contributions, realize return on investment, and strengthen their influence abroad. Their motivations are a mix of humanitarian goodwill and pragmatic interest in expanding their economic influence, perhaps through new trading partners, awarding their own corporations lucrative contracts, or gaining key allies on the world stage. In contrast, developing countries (borrowers) want more control over projects, less bureaucracy, more favorable economic terms like lower interest rates, and to retain control over their economies rather than ceding ground to foreign multinationals.

Historically, donor countries have controlled the entire development system. Recent movements, however, have called for greater representation of the recipient countries, and at development

⁷¹ "FAQ." AIIB, n.d. https://www.aiib.org/en/treasury/_other_content/faq/index.html.

⁷² For instance, the IDA (a component institution of the World Bank) uses the following list, updated annually: <https://ida.worldbank.org/about/borrowing-countries>

banks across the world forums have been created for the developing world to have a say in the aid process. Our simulation of the AIIB will be structured as such a forum and all countries will have an equal say. It is therefore important to understand the needs of all sides.

Advanced Economy

Another name for a country with an advanced economy would be a “Developed Country”, though this term is not necessarily the best characterization of these types of countries, as there is often still development that can be done within them. The IMF comes out with a list of these countries, though there is not necessarily a certain number or threshold that the IMF uses to determine whether a country is developed or not. What characterizes these advanced economies is a high degree of industrialization and a high gross domestic product (GDP) per capita.⁷³ The World Bank, on the other hand, refers to these countries as high-income economies, defined by a gross national income (GNI) per capita of USD 12,536 or more.⁷⁴

Advanced economies are often those providing the highest level of capital to MDBs, like the AIIB. The goal of these countries is to aid emerging and developing economies develop. However, they also wish to ensure that their assets and investments are protected, and often that their investments are in their own national interests. In theory, however, helping another country develop is in the best interest of the financier, as it helps grow the global economy and boosts trade.

At the AIIB, these are the countries that hold the largest shares of voting power and are the largest contributors to the bank. Countries included in this category have the largest sway in the bank and also have the most at risk. As they are not in need of aid, their sole role is to aid in the development of other countries. Although these countries may have similar goals, their interests may not necessarily align. Though this is not to say that there is a lot of infighting in this group, their national interests most always take precedence over the priority of the AIIB. The question for countries in this

⁷³ “Advanced Economy.” United Nations Economic and Social Commission for Western Asia, November 17, 2015. <https://www.unescwa.org/advanced-economy>.

⁷⁴ “World Bank Country and Lending Groups.” World Bank Country and Lending Groups – World Bank Data Help Desk, n.d. <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.

group to address is how to proceed in their role as main members of the bank while also protecting national interests.

Middle-Income Economy

Middle-income countries (MICs) or economies, as defined by the World Bank, make up 75% of the world's population.⁷⁵ MICs are differentiated between a status of lower middle-income economies-- defined by a GNI per capita between USD1,006 and USD3,955-- and a status of upper middle-income economies-- defined by a GNI per capita between USD3,956 and USD12,235.⁷⁶

Middle-income economies are often both benefactors and beneficiaries of international development aid. Often, the aid these countries receive is aimed at what is referred to as second-generation development challenges. These challenges include things such as lifestyle diseases, aging populations, pension reform, tertiary education, social inequality, competitiveness, trade and tax policy, financial literacy, green growth, and urbanization.⁷⁷ To address these challenges, development must take a multi-sectoral, holistic approach that seeks to keep these countries from staying defined as a middle-income economy for too long.

MICs are also key drivers behind development as well, and often make up a large portion of Member States of MDBs. Sustainable development in these countries has great spill-over effects, assisting in poverty reduction, international financial stability, and cross-border global issues, such as climate change, energy, food and water security, and international trade.

Middle-income economies are perhaps some of the most important countries to work with for a development bank like that AIIB. As these countries both receive and give aid, their role in the international development community is greatly important. At the AIIB, the role of these countries is multi-fold and the way in which they interact with other countries at the Bank is varied. These countries should focus on addressing how to develop into an advanced economy while also providing

⁷⁵ "Overview." World Bank, n.d. <https://www.worldbank.org/en/country/mic/overview>.

⁷⁶ Ibid.

⁷⁷ Ibid.

aid to other countries through the bank. Although they may not have the largest share of voting power at the Bank, they still hold influence over how the Bank should proceed in its mission.

Emerging Economy

Emerging economies, or what have been traditionally referred to as developing economies or developing countries, are similar to middle-income economies, broken into two subcategories: low-income economies-- USD995 or less-- and lower-middle- income economies-- USD996 to USD3,895.⁷⁸ This definition is not universal, however, and emerging economies are more often defined by less developed industrial bases and a lower human development index compared to more advanced economies. Emerging economies are often in the greatest need of development aid. A large part of this aid is improving infrastructure and institutional capacity in the country, as well as increasing access to finance among populations.

At the AIIB specifically, these are the countries with the smallest share of voting power and the countries that the AIIB aims to help the most. Although their voice in the Bank in regard to voting power may be limited, they still play a significant role in the actions that the Bank takes. The AIIB has prided itself on working with countries-- not acting as a paternalistic, overreaching organization. As countries the Bank and its Member States have pledged to work with and for, emerging economy states should work closely with advanced and middle-income economies in structuring development aid and honing the mission of the AIIB.

China Axis

Given the AIIB's ties, the second dimension necessary to conceptualize voting blocs is a country's relationship with China. As the founding force behind the AIIB, China appoints the president of the Bank, retains the largest voting share, and contributes a plurality of all capital. The AIIB is headquartered in Beijing and remains loosely associated with Xi Jinping's signature Belt-and-Road Initiative. Given these ties, China's allies may be inclined to support projects that further China's

⁷⁸ "World Bank Classification Emerging Countries." World Bank. World Bank, n.d. <https://wcph2020.com/world-bank-classification-emerging-countries-17>.

existing ambitions, while China skeptics may question whether the AIIB can ever fulfill its goal of becoming a truly multilateral institution.

China's Allies

China's allies broadly support the continued expansion of China's sphere of influence and so would support China's side in most disputes at the AIIB. These countries, which include much of Central Asia, Russia, some of Central and South America and some of Africa, already trade heavily with China. In some cases, they may already receive infrastructure assistance from China through the BRI or other programs. For these countries, therefore, the AIIB is largely just another vehicle for Chinese aid. If the AIIB becomes too bureaucratic or projects are rejected on social grounds that would otherwise pass China's relatively lax standards, then it loses value.



For these reasons, China's allies support continued Chinese domination of the AIIB, or at the very least consistent reform across all of China's outward-facing aid vehicles. In some cases, governments that are particularly close to China may feel that the AIIB is an unnecessary intrusion that forces transparency on otherwise private deals. This skepticism of the AIIB may be balanced by newfound legitimacy of projects that are now funded by more than China alone. However, deviations from the status quo must be measured. China's allies do not want to lose access to perks they currently enjoy, and involvement by China skeptics could threaten that.

China Skeptics

On the opposite side, countries skeptical of China's rising influence tend to approach the AIIB with caution. These countries, which include much of Asia, some of Central and South America, some of Africa, most of Europe and all of North America, are suspicious that the AIIB is a tool of Chinese foreign policy -- essentially that it is a more internationally palatable vehicle through which they can expand the BRI without raising the sorts of complaints sometimes levied at China's sometimes-questionable lending practices.⁷⁹ For these countries, the AIIB should follow strict international guidelines, likely co-investing heavily with existing MDBs, should be entirely transparent, and should have a clear scope.

⁷⁹ Barkin, Noah, and Aleksandar Vasovic. "Chinese 'Highway to Nowhere' Haunts Montenegro." Reuters. Thomson Reuters, July 16, 2018. <https://www.reuters.com/article/us-china-silkroad-europe-montenegro-insi/chinese-highway-to-nowhere-haunts-montenegro-idUSKBN1K6oQX>.

Glossary

Asian Development Bank (ADB): Founded in 1966, a Multilateral Development Bank committed to promoting social and economic development in Asia.

Asian Infrastructure Investment Bank (AIIB): Founded in 2015, a Multilateral Development Bank committed to promoting development in Asia.

Belt-and-Road Initiative (BRI): a wide-sweeping infrastructure project that aims to expand trade along the trade routes of the ancient silk road and has used questionable practices in the past to fund projects.

Bilateral Development Bank: A development bank run by a single country.

Bretton Woods Institutions: The World Bank and the IMF, which supplemented the UN system with new instruments of global finance.

BRICS: An alliance between Brazil, Russia, India, China, and South Africa. These countries have rapidly growing economies.

Catastrophe (CAT) Bonds: Bonds designed to raise capital during a disaster.

Credit Line: Credit extended to an organization which can later be acted upon for temporary liquidity.

Development Finance Institution (DFI): Global financial institutions which provide support for international development.

International Monetary Fund (IMF): An IFI that facilitates global monetary cooperation.

John Maynard Keynes: An economist with a vision for a global economy protected by strong institutions and policymakers.

Multilateral Development Bank (MDB): Development banks that are jointly funded by multiple countries.

New Development Bank (NDB)/ BRICS Bank: A joint project of Brazil, Russia, India, China, and South Africa to facilitate development.

Permanent Capital Commitments: Capital to an MDB or IFI that a country will contribute regardless of market situation.

Trans Pacific Partnership (TPP): A proposed trade agreement between Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam, and the United States.

“V” Shaped Recovery: A supposed recovery that some economists thought initially thought would happen post-pandemic where industries and the economy would quickly recover and resume normal operations.

World Bank: A leading IFI that grants money to governments for international development.

Bibliography

2020. *Pubdocs. Worldbank. Org.*
<http://pubdocs.worldbank.org/en/795101541106471736/IBRDCountryVotingTable.pdf>.
- "2020 GDP Data," 2020. <https://data.worldbank.org/>.
- "Advanced Economy." United Nations Economic and Social Commission for Western Asia, November 17, 2015. <https://www.unescwa.org/advanced-economy>.
- "AIIB Hits Its First-Year Lending Target". 2020. *Nikkei Asian Review*.
<https://asia.nikkei.com/magazine/20170126/Politics-Economy/AIIB-hits-its-first-year-lending-target>.
- "AIIB Reaches 100-Member Milestone - News - AIIB". 2020. *Aiib. Org.* <https://www.aiib.org/en/news-events/news/2019/AIIB-reaches-100-member-milestone.html>.
- "Articles of Agreement." Basic Documents. AIIB, 2015. <https://www.aiib.org/en/about-aiib/basic-documents/articles-of-agreement/index.html>.
- Barkin, Noah, and Aleksandar Vasovic. "Chinese 'Highway to Nowhere' Haunts Montenegro." Reuters. Thomson Reuters, July 16, 2018. <https://www.reuters.com/article/us-china-silkroad-europe-montenegro-insi/chinese-highway-to-nowhere-haunts-montenegro-idUSKBN1K6oQX>.
- Bevanger, Lars. "Experts Call for Poverty Action." Business News. BBC, June 24, 2002.
<http://news.bbc.co.uk/2/hi/business/2063247.stm>.
- Dollar, David. "The AIIB and the 'One Belt, One Road.'" *Brookings*, 21 June 2015,
<https://www.brookings.edu/opinions/the-aiib-and-the-one-belt-one-road/>.
- Engen, Lars, and Annalisa Prizzon. *A Guide to Multilateral Development Banks*. Overseas Development Institute, 2018.
- "FAQ." AIIB, n.d. https://www.aiib.org/en/treasury/_other_content/faq/index.html.
- Gåsemyr, Hans Jørgen. *China and Multilateral Development Banks: Positions, Motivations, Ambitions*. Oslo: Norwegian Institute of International Affairs (NUPI), 2018.
- "Interactive Map: The Asian Infrastructure Investment Bank." Coalition for Human Rights in Development, July 2, 2018. <https://rightsindevelopment.org/project/the-asian-infrastructure-investment-bank/>.

Kapur, Devesh, Richard Charles Webb, and John P. Lewis. *The World Bank: Its First Half Century*. Washington, D.C.: Brookings Institution, 1997.

Lateef, K. Sarwar. "Evolution of the World Bank's Thinking on Governance." World Development Report Background Paper; World Bank, 2016.
<https://openknowledge.worldbank.org/handle/10986/26197>.

"Members Of The Bank - AIIB". 2020. *Aiib.Org*. <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

Morris, Scott, and Mamoru Higashikokubaru. "AIIB Voting Power: How Does It Compare to the Other MDBs and What Does It Mean for the US and Japan?" Center For Global Development, July 9, 2015. <https://www.cgdev.org/blog/aiib-voting-power-how-does-it-compare-other-mdb-and-what-does-it-mean-us-and-japan>.

"Myanmar: Myingyan 225 MW Combined Cycle Gas Turbine (CCGT) Power Plant Project - Projects." AIIB, n.d. <https://www.aiib.org/en/projects/details/2016/approved/Myanmar-Myingyan-225-MW-Combined-Cycle-Gas-Turbine-Power-Plant-Project.html>.

Nelson, Rebecca A. and Martin A. Weiss "IMF Reforms: Issues for Congress," CRS Report R42844.

"OUR TOMORROW - 2019 AIIB Annual Report And Financials". 2020. *Aiib.Org*.
<https://www.aiib.org/en/news-events/annual-report/2019/our-tomorrow/index.html>.

"Overview." World Bank, n.d. <https://www.worldbank.org/en/country/mic/overview>.

Perlez, Jane. "China Creates a World Bank of Its Own, and the U.S. Balks." *The New York Times*, 4 Dec. 2015. *NYTimes.com*, <https://www.nytimes.com/2015/12/05/business/international/china-creates-an-asian-bank-as-the-us-stands-alooof.html>.

"Project List - Project - AIIB". 2020. *Aiib.Org*. <https://www.aiib.org/en/projects/list/index.html>.

"Project Summary - Projects." AIIB, n.d. <https://www.aiib.org/en/projects/summary/index.html>.

Toussaint, Eric. "The World Bank: a never-ending coup d'état. The hidden agenda of the Washington Consensus."

Treasury, HM. "UK Announces Plans to Join Asian Infrastructure Investment Bank." GOV.UK. GOV.UK, March 12, 2015. <https://www.gov.uk/government/news/uk-announces-plans-to-join-asian-infrastructure-investment-bank>.

- Tritto, Angela, and Alvin Camba. "The Belt and Road: The Good, the Bad, and the Mixed." *Diplomacy*. *The Diplomat*, April 16, 2019. <https://thediplomat.com/2019/04/the-belt-and-road-the-good-the-bad-and-the-mixed/>.
- Truman, Edwin. "China, the United States, and Damage to the IMF." *Realtime Economic Issues Watch*. Peterson Institute for International Economics, September 4, 2018. <https://www.piie.com/blogs/realtime-economic-issues-watch/china-united-states-and-damage-imf>.
- "Turkey: COVID-19 Credit Line Project - Projects." AIIB, n.d. <https://www.aiib.org/en/projects/details/2020/approved/Turkey-COVID-19-Credit-Line-Project.html>.
- Weiss, Martin. *Asian Infrastructure Investment Bank (AIIB)*. CRS Report, R44754, Congressional Research Service, 3 Feb. 2017.
- "Who We Are." World Bank. November 5, 2015. Accessed August 21, 2020. <https://www.worldbank.org/en/who-we-are>.
- "World Bank and IMF Conditionality: A Development Injustice." *World Bank and IMF Conditionality: A Development Injustice*. Eurodad/Oxfam, June 2006. <https://eurodad.org/files/pdf/454-world-bank-and-imf-conditionality-a-development-injustice.pdf>.
- "World Bank Classification Emerging Countries." World Bank. World Bank, n.d. <https://wcph2020.com/world-bank-classification-emerging-countries-17>.
- "World Bank Country and Lending Groups." World Bank Country and Lending Groups – World Bank Data Help Desk, n.d. <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.