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Program

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China’s footprints are everywhere. The Chinese economy is now the largest in the world. In terms of geopolitics, China is a dominant player in the South China Sea. On geo-economics, China’s One Belt, One Road initiative is all the rage, having attracted attention far and wide. Together with OBOR has been the Asian Infrastructure Investment Bank, or AIIB.

So far, AIIB has some 57 members, with a funding upwards to 100 billion US dollars, two thirds of the Asian Development Bank’s capital base and one half of the World Bank’s. Yet the AIIB has just started with only a handful of projects. It is too early to tell whether it will become a rival of the ADB for financing development in Asia. But given Asia’s substantial needs for infrastructure investment, perhaps there is enough room for two complementary financing vehicles.

We are interested to find out more about the AIIB and China’s intentions behind its formation. Certainly, China has indicated that it wants to add to some of the rules governing Asia but we don’t know yet whether the AIIB, OBOR and other Beijing-driven schemes will entirely revise and reshape the rules and institutions in our neighbourhood.

Mr. Manfred Hornung
Director, Heinrich Böll Stiftung Southeast Asia Regional Office

Last year prior to China’s G20 presidency, infrastructure investment featured prominently on the global agenda. In July 2015 the Addis Ababa Action Plan emanating from the conference on Financing for Development established the Global Infrastructure Forum to identify infrastructure targets and to seek opportunities for investment. In September 2015, the Sustainable Development Goals were adopted, which also called for resilient infrastructure investment. Finally, the Paris Climate Conference concluded with an agreement that put much on emphasis on the role of infrastructure projects as a decisive factor in reducing greenhouse gas emissions. China has also pledged to further the G20 Global Infrastructure Initiative, which was launched in 2014 under Australia’s presidency, to expand the demand for bankable, quality infrastructure projects.

All of these initiatives recognise infrastructure investment as an essential component for economic, equitable and fair development.

Despite these commitments, there are growing concerns that the focus of the global infrastructure investment agenda hinges strongly on classic economic infrastructure, such as road, transportation systems and energy supply, with a marked lack of representation for social infrastructure, such as hospitals, schools or for disaster risk management.

Coherence among economic, social and environmental policies is essential. As Germany takes up the G20 presidency at the end of this year, these trends will be followed closely.
Mr. Mark Grimsditch  
The Mekong Regional Coordinator  
Inclusive Development International (IDI)

IDI as an NGO has a major focus on financial institutions and accountability of those institutions. IDI has experience engaging with the World Bank, the ADB and the IFC on policy, safeguards, reform and specific projects to help communities and affected people engage with those institutions. The new players, BRICS Development Bank and the AIIB change the landscape. We need to find out how these institutions work, how to engage them, what are their institutional make-up and goals? It is inevitable that they will become key players in the global development finance landscape.

We are in a situation where the global development finance landscape is changing quite rapidly. For decades, international financial institutions (IFIs) were dominated by the US, Europe and Japan. But now, there is a lot more happening. There is Chinese-led and Chinese-backed institutions like the AIIB and the Belt and Road Initiative.

Since the early 2000s, China has adopted a ‘Going Out’ strategy. Last year, China was the second biggest overseas investor behind Japan, this year it will likely be number one. This has been made possible only after strong support from the Chinese government and financing from state banks, commercial banks and policy banks. At the same time, China is occupying an important role from within international financial institutions. It is no secret that they have become increasingly frustrated at the dominance of Western powers within those institutions – this is a frustration shared by other emerging economies too. China has 20% of the world’s population, but only 5% of the voting rights at the World Bank; the United States has 16%. At the ADB, China has 5.5% voting rights, US and Japan have 13%. The time it takes from a project being proposed to actually being implemented can be lengthy – this is a constant cause of criticism from borrowers. Chinese investors often step in with faster money and less strict conditions, for example, in Cambodia the Prime Minister takes every opportunity to praise Chinese investment and banks for giving quick and easy loans, while criticising the World Bank for its strict guidelines.

Why are there so many loans available for infrastructure? That is because there is an infrastructure gap. Considering the amount of wealth in the world, the fact that 1.2 billion people live without electricity, a billion live without a sealed road, or 748 million people lack clean drinking water is unacceptable.

When we look at China, especially over the past decade, its rapid development has been connected to infrastructure investment. At the same time, China has also become a major actor globally. It invests in nearly everything; transport, subways, hydropower, pipelines, clean energy (wind, solar), port development, bridges, train networks. Last year, China’s official outbound investment reached $120 billion. In 2002, it was $2.7 billion. China is the top investor in Cambodia, Laos and Myanmar, but investment is increasing across ASEAN.

For years, China has had phenomenal GDP growth, spurred on by debt-driven infrastructure investment, housing and heavy industry. The downside of that has been heavy pollution, and especially over-capacity. China is attempting to rebalance the economy, trying to encourage consumer spending, technological innovation at home. The downside of that is the potential of exporting over-capacity and exporting dated technology.
It can’t be denied that China is seeking to assert itself in the region or globally, solidify and expand its regional presence. This is connected to Xi Jinping’s Chinese Dream and the Great Rejuvenation of the Chinese Nation. Expanding the reach of Chinese financial institutions is a key part of this.

Where does the AIIB fit into this picture? China has become a major outward investor as a result of its Going Out strategy, and plays a key role in existing multilateral banks. Most of China’s investment projects are initiated through policy banks, like China Development Bank, and state-owned enterprises. Chinese companies and banks have come under increasing scrutiny as a result of how they implement these overseas projects.

In contrast to existing Chinese banks, the AIIB is multilateral. While China does hold a very large share of the voting rights, this must be balanced by the fact that there are 56 other members. The bank is in its early stages, and it has developed and evolved very quickly.

The AIIB was announced in October 2013. A year later, 21 countries signed on as members, all Asian countries. By April 2015, that was up to 57 countries, including non-regional actors. China is by far the biggest shareholder, and is the first multilateral bank that has been founded and led by China. This resulted in a lot of speculation early on that it would be ‘China’s bank for China’s interests,’ but the Chinese government and the management of the bank have been very quick to dismiss this.

Its purpose is very much focused on infrastructure. Although it claims to be a development bank, by the way it is structured and the way it looks like it will be operated, many believe it’s likely to be an investment bank. It is also very eager to interact with the existing frameworks.

According to the bank’s governance structure, 75% of the shares are reserved for regional states. China holds 30% of the bank’s shares, and 28% of its voting rights. That means China can exercise veto over some decisions, however that will dilute as more states join. India has 8.3% of the vote, and Russia about 5%. While it is not ‘China’s bank’, it does have a huge amount of influence over how it is run.

President Xi takes every opportunity to claim that the AIIB will be “lean, clean and green.” Lean, with a stripped-down management and bureaucracy. Clean, as in zero tolerance of corruption. And Green, targeting green and sustainable investments.
Ms. Luz Julieta Rio Ligthart  
AIIB Policy and Advocacy Coordinator  
NGO Forum on ADB

There is a need for infrastructure, but who is the infrastructure for? There is a greater demand for more responsible investments. Who are the actual beneficiaries for these projects in the end?

There is no doubt that there is a need for infrastructure financing. There seems to be a big gap in Southeast Asia in particular. Asian infrastructure market is expected to grow about 7% per year over the next decade, up to $5 trillion. In order to maintain the current level of economic growth, Asia will need to spend approximately $8 trillion on infrastructure by 2020. China is expected to increase its share of global infrastructure spending from 22% in 2012 to 30% by 2025. Chinese finance in infrastructure is extractive.

Under the AIIB, there are already project approved and underway, even though clear policies and guidelines as to the governance structure, funding and oversight of AIIB projects have not been finalised. There are currently approved projects in Pakistan, Bangladesh, Tajikistan and Indonesia.

What is wrong with these projects? Major infrastructure projects are seldom politically neutral and not necessarily economically beneficial. This is especially the case in fragile or conflict-affected countries where many have weak or absent systems of governance. Often, in these contexts, externalities such as effects on the natural environment, use of resources, inclusive growth, and impact on societies and communities are sidelined in the name of economic growth and progress. There is also an associated commodification of land, where communities are displaced so that land can be used for establishing projects. There are also more human rights violation around the project areas.

There is massive displacement, forced resettlement, militarisation, destruction of natural environment, loss of customary or traditional rights, and vulnerable groups tend to be the victims of energy and infrastructure development. There is a promise that infrastructure development promotes economic growth, but that growth rarely flows to the most vulnerable groups in the country – more often than not they are actually worse off.

Governments have a responsibility to make sure that their constituents are the real beneficiaries to these projects, not just businesses or a small elite. Concurrent policy frameworks for international financing institutions make a difference in addressing poverty from their infrastructure and energy investments.
There are three phases of Chinese outbound investment. Beginning at the period before 2004, there was very little outbound investment, and it was by-and-large unsuccessful. Then, after 2004, China started opening up the restrictions on outbound investment and a realization that China needed to secure resources. Following by the next decade which is called the period of utilitarian acquisitions, Chinese started their investment due to the need of such oil and minerals. Furthermore, they also started buying distributions, brands and technology because there was a demand.

After 2014 onwards, the Chinese felt that overseas investments made more money than investing at home. This is contrast to a decade prior where the Chinese could get better returns in China; indeed, there is a chance that they could make a loss. Now China is oversaturated and oversupplied. Industrial sectors are being cut back.

By contrast, Southeast Asia offers so much. Many projects are filtered through BIR, but many are also organic. Much outbound investment would have happened without BIR, because of the diminishing returns of investment at home. However, the BIR initiative and outbound investment trends do assist each other. It is important to note that BIR projects assist not only state enterprises, but they are also encouraging private enterprises.

Chinese macro-industrial policy is very clear and focused. They identify champions, give them the market, and support them in any way possible – this is the same for state or private enterprises. In fact, all the internet companies, such as Alibaba, are not state-owned, but they are supported by state as if they were state-owned companies to nurture domestic industries.

The GMS region will be a fantastic source for projects in the BIR ecosystem. There are highly complementary economies, large and young populations, and low unemployment. Add in the catalyst of Chinese money and the GMS region emerges as an exciting region.

Noting the drivers of the AIIB, there is one factor that has been underdeveloped. The AIIB is a transformer of US treasury bonds into real, usable infrastructure. Is the AIIB worth a mere $100 billion? Of course not. The $100 billion is the capital, they will be raising debt on the back of that. Essentially, they have created a machine that turns AA debt into AAA debt. That is going to allow them to compete with the Japanese. While the Chinese have ulterior motives, they want to make more or they want Chinese companies to get the projects, the AIIB will still do a lot of good. In terms of loan standards, it may be risky, but this happens to the World Bank and ADB as well – they are not beacons of excellence either.

1. Foreign policy is not particular high on the Chinese agenda. In the United States, the Secretary of State is ranked third. In China, the Foreign Minister or the State Chancellor doesn’t even make it to the Politburo.

2. There are a lot of conflicting agenda. China has changed their policies and responsibilities towards BIR. On the one hand, they want to promote BIR, but on the other
hand they want to avoid RMB outflows. In this regards, the bodies compete to each other and are not organized. Consequently, the conflicting messages come out.

3. There is lack of skills in dealing with international matters. As recent as five years ago, most Chinese companies would have been domestic. Accordingly, they don’t have a lot of experience at the international stage, including trade negotiations in English, non-disclosure agreements.
Mr. James Stent
Former Director, The China Everbright Bank
Independent Director, The XacBank of Mongolia

Concurrently, changes in China are proceeding such a rapid rate, however, there are still enormous continuities in what happens in China. Once both are correctly understood, we will have a better sense of what is likely to happen in China. Although the AIIB is just beginning, and still only launched a very small number of projects, we can be optimistic that it can be an important mechanism to do a lot of good in this part of the world.

China does not accord extraordinary independent importance on foreign policy – that is because foreign policy in China is part of a larger national strategy, which Xi Jinping articulates as the “Rejuvenation of China” and the “China Dream.” Foreign policy is not something that is independent as the United States, rather it is incorporated in as a part of Chinese overall national strategy for achieving the wealth and power that it feels it deserves. In the past, the role of foreign policy was quite “low on the totem pole,” but now China stepping forward to the international stage, an integral part of its rejuvenation policy. Thus, AIIB is a prominent part of this goal.

China realises that its global and regional image is on the line in making the AIIB successful and avoiding major failures. Therefore, they have put some of their best resources behind planning and establishing it. Firstly, the CEO of the AIIB, Jin Liqun is an outstanding and sophisticated person, and is a member of Communist Party; thus he affirms that the Chinese policy and the AIIB’s be synchronised. At the same time, the Ministry of Finance is responsible for getting most of the work of the AIIB underway. Hence, some of the best and brightest have been steered in.

Is there a grand strategy? Yes and no. There is a grand goal of national rejuvenation and great power, but the details of how that will work will gradually unfold. Hallmarks of Chinese strategy are pragmatism, what Deng Xiaoping called “crossing the river by feeling the stones.” This means that if it works, do it. If it doesn’t work, scrap it. The Chinese often announce a grand project, then nothing happens. There is silence. But after a while, a few small pilots spring up in remote parts of the country. The want to see how it works in a small area. This is typical of almost everything that China undertakes. Proceed step-by-step. This is what is happening with the AIIB, small steps. First, make a loan to a friendly country like Pakistan, gain a little experience, get your staff in order, announce a few policies, and find out what the details should be when moving forward.

For 2000 years, there has never been a culture of ‘transparency.’ Don’t expect this to germinate overnight. But also remember that in the United States’ Freedom of Information act is not that old. The United States has not been so transparent either, so we can give China a bit of benefit of the doubt and give them time to work out the details.

China is surprisingly averse to risk. After the debacle of the 1990s-banking collapse, the mantra in Chinese banks is ‘don’t lose money.’ This is likely to carry through to the AIIB. It will be relative cautious.

The AIIB cannot be expected to grow extremely fast. It will grow bit-by-bit and step-by-step. One of the mistakes Western pundits make when looking at China is that they think when
something is announced, action should occur within 1-2 years. However, the process of these strategies may take 5-8 years to unfold.

Competition with the World Bank and the ADB is good. First, the United States’ opposition to countries joining the AIIB was a smokescreen, and a colossal blunder. The West must be very careful about adopting a preaching, superior and condescending attitude towards China. For example, the World Bank has a massive corporate governance problem. Certain countries are unjustly unrepresented. There is a bloated bureaucracy with great inefficiencies. There is also a history of Western-led institutions for having shoddy environmental impacts and displacing peoples and communities. In this regard, the AIIB should learn from the World Bank’s experiences.
I would like to ask one question: is China a developed country? It is developing? The difference between the two is that, developed countries make rules. China does not make rules, because it is not quite developed yet. China has a long learning curve, but will learn. We lack the understanding on thinking on China, and we probably end up misleading ourselves when we try to understand the various threads of information that come out of China.

Japan would like to join, but it does not have the kind of money on hand to contribute as much as China.

Thailand has embraced AIIB. Not because of an affinity towards China, but because it will fill Thailand’s domestic needs. Thailand has 20 planned or ongoing infrastructure projects. Thailand wants to develop itself as a trade and logistical hub of ASEAN. With AIIB, we expect a favourable outcome. AIIB provides an additional source of funding for Thailand for the next 20 years.

ASEAN also has its own connectivity plan – the so-called “Master Plan of ASEAN Connectivity 2025.” That would require $885 billion in the next few years. ASEAN would expect some funding beyond the traditional established funding mechanisms. ASEAN hopes that China picks up its own connectivity plan when it considers infrastructure programs in Southeast Asia – however, one of China’s shortcomings is that it has not yet linked the Belt and Road Initiative with ASEAN’s MPAC, and ASEAN itself has not yet established a committee to try to synergise both plans. As an organisation, ASEAN has not yet endorsed BRI – ASEAN has only “taken note” of BRI in its official document, not yet embrace it. There have been 130 projects offered by Xi Jinping since he came to power, but they have not been picked up by ASEAN.
Public Question: If we look at the way Chinese projects have been signed in Asian countries, they are comfortable dealing with governments. They seem to be home dealing with governments, but when governments change because of democracy or reform, they are completely caught flat footed. Myanmar, Sri Lanka, projects have been frozen. Is China realising that they need to deal with civil society when pushing through projects, or are they remaining transactional with governments?

Jim Stent: The Chinese are good at learning, and they are not ideological, which is strange for a Communist Party. China’s foreign policy will continue evolving as they learn from their past mistakes.

Joe Horn: One limiting factor to this ability to learn is the distance from the centre of the people who make the mistakes. You will have a construction company boss in Bangladesh who is so far removed from any organ which is doing the learning. The message therefore gets distorted on the way up.

Public Question: How long does it take for China to go through the reform process where they come out of their secretive shell, and be more transparent?

Joe Horn: Jack Ma is not China Inc. He is not part of the leadership. Of course he can be open and honest, he can say whatever he likes. Companies have the need to be transparent because they are listed will be transparent, as much as they can and have to.

There is a cultural aspect in China about trying not to be as transparent as you can, if you can get away with. That kind of cultural aspect takes millennia to erode. Transparency is not necessarily viewed as a virtue in China, it is not always aspired to. Being efficient, well governed and honest is more important from a Chinese view.

Kavi: When you talk about China, you have to be patient. One of the most amazing thing about China in the past three decades is that China has moved so incredibly fast, meaning that it has not yet prepared all the ingredients for development in the West.