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The new China-led investment bank AIIB and its geo-strategical meaning

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The Asian Infrastructure Investment Bank (AIIB), first proposed by China in October 2013, opened for business in January 2016. The AIIB is not only a bank it is also part of the new "assertive" foreign policy line. After the going out strategy starting in 2000 China emerged as a global player building alliances, signing bilateral cooperation treaties and FTAs especially with the Asian neighbor states. With the assumption of office of the Xi Jinping administration in 2013 this well-prepared popular dream of renewed national greatness was translated into policy.

Another step on this path was the formation of the 40 billion USD "Silk Road Fund" in November 2014, which finances new infrastructure projects along the sea- and land corridors in Eurasia. The AIIB is meant to support the "Silk Road fund". Also in 2014, Wang Jisi, the Dean of the School of International Studies at Peking University, published several articles on the geo-strategical necessity of "Chinas march to the West" (*Xi Jin*). In March 2015 the Chinese government published the Doc. "Vision and Actions on Jointly Building Silk **Road** Economic **Belt** and 21st-Century Maritime Silk Road" (NDRC et al. 2015, known as OBOR One-Belt-One-Road).

OBOR is a redesign of formerly unrelated or independent regional strategies which are now summarized in one conceptual design. The rhetoric seeks to signal the peaceful intention as "revitalizing old trading routes" instead of hegemonic policies. After the collapse of the Soviet Union, China had to redefine its relationship with the region, esp. the new three states Kirgizstan, Kazakhstan and Tadzhikistan. Therefore, in 1996 it launched the "Shanghai-Five-Group" (China, Russia, three new states). In 2001, this group developed into the "Shanghai Cooperation Organization, which also includes Uzbekistan, India and Pakistan are acceding states and several other states are observer states or dialogue partners. Together with the Russian "Eurasian Economic Union" it forms a very powerful economic alliance.

Secondly, since 2009, China is leading the "16+1"-Initiative which aims to establish a regional mechanism to cooperate with 11 EU Member States and 5 candidate EU accession countries from Southeastern Europe. In June 2015 at the EU-China-summit in Brussels both sides decided to cooperate in the funding of a joint EU-connectivity platform which corresponds perfectly with the Chinese geo-strategical plans.

Thirdly, OBOR extrapolated the Bangladesh-China-India-Myanmar Economic Corridor (BCIM EC). In 2013 China, India, Bangladesh and Myanmar agreed to build this corridor to optimize the infrastructure between Northeast India, Bangladesh, Myanmar and southwest China, which was blocked for many decades.

But Xi's OBOR strategy is also a reaction to the "rebalancing Asia" policy of Barack Obama which was announced by Washington in 2011 under the term "New Silk Road". This strategy was aimed at maintaining Washington's primacy in the Asia-Pacific region by using trade instruments like TPP. When Xi came to power, he launched his own vision for a China-led Silk Road that would streamline foreign trade, ensure stable energy supplies, promote Asian infrastructure development, and consolidate Beijing's regional influence meaning closer cooperation with the bigger region of Eurasia and Southeast Asian neighboring countries.

The formation of the AIIB has to be seen in this context. It provides financing for huge infrastructure projects in South East Asia and countries along the Silk Road route in South Asia, Central Asia, the Caucasus and the periphery of Europe. The route from Central Asia to Europe is designed to strengthen trade and investment relations. A "second silk road" is to be established via sea routes along the coastal line of Southeast Asia to the South Chinese Sea or alternatively through South Pacific to Europe.

European membership inside AIIB

European membership in the AIIB was critical to Beijing's ambition of heading an international institution, and not merely a regional one. Once the UK announced its intention to join the AIIB in March 2015, Germany and a host of other European nations, among them Austria and Switzerland, followed.

Their membership was vital because the United States, Japan and Canada, all G 7 members, did not. While the U. S. may have been preoccupied with the extension of China's "soft power", it explained its reluctance to join with the lack of transparent governance, environmental and social standards. Indeed, the US Congress would hardly have approved funding for the AIIB in the absence of such standards.

Facing no such parliamentary hurdles, European governments took the view that their membership would enable them to influence standard setting at the AIIB. In its press release announcing that Germany had joined the AIIB as a founding member, the German Ministry of Finance stated that it would work to obtain the best international standards and practices at the AIIB (17 March 2015).

As with other large investments in infrastructure, these would have to include transparent decision-making, public access to information on AIIB projects in the pipeline and under implementation, public consultation processes and effective monitoring of the implementation of environmental and social standards.

However, a lack of transparency and an inadequate public consultation process have marred the establishment of the AIIB's Environmental and Social Framework (ESF). Its policy on public access to information also falls short of the practice of disclosing information publicly at other multilateral financial institutions.

Upon ratifying German membership in the AIIB, the Parliamentary Committee on Finance passed a joint resolution calling on the Government to demand that the AIIB establish environmental, social and transparency policies that are at a minimum equivalent to those at other institutions, such as the World Bank. Parliament will now have to require regular reporting on the progress made and on the sound use of Germany's financial contribution to the AIIB.

During its first year of operation, the AIIB plans to engage mainly in co-financing operations with other multilateral banks. This may leave some of the hard questions for later when the AIIB has more firmly established itself and obtained its Triple A credit rating,

The AIIB's Social and Environmental Standards and the risk of locking in fossil fuel technology

Jin Liqun, president of the new financial institution set up to provide financing for infrastructure projects along the Silk Road route, has declared that the AIIB will be a 'lean, clean, and green' institution which upholds the highest standards of 21st century governance. Early doubts, though, hang over these aspirations.

The final review of the AIIB's draft Environmental and Social Framework (ESF) was concluded in March 2016 behind closed doors. Also, guidelines to public access to information were concluded in March 2016. It foresees no provision of public information on projects financed by the AIIB before approval.

While the draft ESF contains all the trendy buzz words, such as transparency and accountability, it lacks clear mandatory requirements. There are too many exception clauses and loopholes.

AIIB clients will be asked to meet the standards in a manner and time frame acceptable to the Bank, which allows for too much discretion of Bank management whose primary incentives will be to make loans, and not to ensure sustainable outcomes. There will also be the option for clients, both governments and private companies, to simply use their own standards instead of those of the AIIB. However, there is no clarity on how the AIIB will assess that the clients' standards are equivalent to its own.

Yet they chime with China's previous suggestion that a technical panel will make expert decisions on AIIB funded projects rather than the AIIB's board with the guidance of an internal sector investment policy.

What remains critically missing is a sector investment policy for fossil fuels, or an analysis of the known and irreversible environmental, social and health risks specific to coal, enabling quantification and avoidance strategies that could offer guidance on the viability and prudence of planned coal projects.

Lenders such as the Asian Development Bank (ADB) have agreed to identify projects for co-financing with the AIIB, while the European Bank of Reconstruction and Development (EBRD) says it will be ready to present the AIIB with several projects ripe for immediate co-financing from 2017.

The European Bank of Reconstruction and Development, the World Bank, as well as the European Investment Bank all have adopted climate and energy policies in recent years which limit their funding of highly polluting coal-fired power plants. Some shareholder countries of these public development banks which have effectively stopped financing coal projects are also founding members of the AIIB, including 14 EU member states. While the non-regional/European members of the AIIB only represent 25 % of the total shareholders, it is unclear whether the EU countries have acted during the AIIB's set-up negotiations to support restricted financing of unabated coal projects, consistent with the policies they have supported at the other multi-laterals. Regrettably, the apparent lack of tough talking on the issue of coal at the AIIB negotiating table would suggest that policy incoherence can be tolerated. China, India, and Indonesia are coal friendly.

Jin Liqun has gone on the record to suggest that coal power is a human rights issue for people living in poor countries with no access to power, and that the AIIB therefore ought to make exceptions for the funding of new coal. However, a recent study from the Overseas Development Institute (one of many published recently) shows that in practice new generation capacity does not translate directly into new electricity connections or – even – lower prices for existing poor consumers. In short, the construction of new coal plants is no silver bullet for solving energy poverty.

Even before the conclusion of the environmental and social standards and even prior to the

The Asian Infrastructure Investment Bank (AIIB) is dedicated to providing financing for big ticket infrastructure projects in energy and transport sectors in South Asia, Central Asia, the Caucasus and the periphery of Europe. Furthermore, the AIIB is the helping hand for the urgency to export Chinas over production.

The China-led bank has emerged as a multilateral institution with the backing of 57 members in record time. Among the founding members are Bangladesh, Cambodia, India, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam and China (with almost 30 percent of the shares China is the largest shareholder and can veto any decision). Taiwan applied but was rejected. The AIIB has an initial authorized capital of $100 billion, 75 % of which will come from Asian and Oceanian countries.

According to the AIIB's charter (Articles of Agreement), its Board of Directors is composed of 12 members of whom 3 members will represent non-regional countries. Both the UK and Germany obtained one of these coveted directorships, with Germany representing Euro-Zone members, and the UK those outside the Euro-Zone. Each director has voting shares proportional to the financial contribution of the member states he/she represents. Since non-regional shares are limited to 25 %, which includes Brazil, Egypt and South Africa, the 17 European member states will together have slightly above 20 % of voting shares. Germany with above 4 % of the shares is the largest non-regional contributor.

The role of non-resident Board of Directors is to establish AIIB policies and supervise management and operations on a regular basis. What remains unclear is what role the Board will play in overseeing projects in the Bank's pipeline, reviewing environmental impact assessments and in deciding on individual investments. An initial AIIB proposal that all investments up to USD 500 million should be signed off only by the Bank's president has apparently met with some European resistance, although it is not known whether a new threshold has been set.

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appointment of the Bank's Board, the AIIB had as early as 2015, leapt into the process of lining up its project pipeline for 2016, including naming infrastructure projects in Pakistan as forthcoming investments for the institution. Already back in November 2015, an official from Indonesia's Ministry of Finance was quoted praising the AIIB's readiness to provide USD 1 billion in loans to Indonesia over the next four years, including for coal-fired power projects. This was backed up by a reported assertion that "*... AIIB imposes looser environmental requirement in disbursing its loans, making it the preferred creditor for financing Indonesia's coal-fired power plant projects*". This statement was retracted and replaced with "*AIIB – as opposed to other multilateral lenders like Asian Development Bank or the World Bank – allowed its financing to be used for Indonesia's coal-fired power plant projects.*"

As the AIIB appears to be set to providing funding for big-ticket energy and transport infrastructure projects, doubts persist about whether sustainable development goals will be hamstrung by unwarranted, unfit policies which fail to protect communities and their environment from the predictable, well-documented and irreversible harms associated with mega-scale infrastructure projects, including fossil fuels.

Similarly, the European countries concerned risk forfeiting their relevance by muting their agreed climate and energy policy targets to fit in with AIIB's intention to help drive forward more unabated coal projects at precisely the wrong moment. This is unacceptable in the wake of the Paris climate summit's historic agreement which many observers have viewed as spelling the beginning of the end for the fossil fuels era.

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The Stiftung Asienhaus is committed to the implementation of human rights, the strengthening of social and political participation, as well as the protection of social justice and the environment.

The organization was founded in 1992 under the name "(German) Asia Foundation". Its founder, Prof. Dr. Günter Freudenberg, and several other associations working on Asia joined together in 1995 in Essen and founded the Asia House. In October 2012, the Asia House moved its headquarters to Cologne.

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