

How “Successful” Is The AIIB? The Influence of the Bank’s Performance on China’s Relations with “Distant” Countries

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Abstract

The paper analyzes the Asian Infrastructure Investment Bank (AIIB) activity in countries that are politically “distant” from China in order to answer the following research question: considering that the AIIB is a Chinese brainchild and preserves many levers of Chinese interest, why do politically “distant” states such as India and the Philippines are among its most active participants and which benefits does the successful operation of the AIIB in these countries bring to China? In order to answer these questions the author uses the sociological constructivist approach in the institutional analysis of the AIIB to determine how China can influence the Bank, quantitative and qualitative methods to assess the Bank’s operation in India and the Philippines. The main findings are that the institutional design of the Bank delegates a lot of decision-making authority to the management of the Bank which has strong connections to China. In politically “distant” states such as India and the Philippines the Bank serves as a remedial tool that becomes especially active when all the other channels of Chinese financing get blocked. Through the AIIB as a multilateral bank China can direct its development finance to politically “distant” states to partly compensate for the deterioration of bilateral economic ties, promote regional infrastructural connectivity and improve the image of the AIIB as an impartial institution.

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Introduction

The foreign policy of the PRC under Xi Jinping is characterized by the desire to ensure that China has one of the leading places in the world, which means the intensification of diplomatic efforts, and the promotion of global concepts and initiatives. An illustration of this is the promotion of the so-called Belt and Road Initiative (BRI) (Chinese: 一带一路) which was among several initiatives aimed at improving connectivity between China and the countries along the important trade routes and also promoting Chinese economic and political influence through implementing infrastructural projects (Yang 2016, 767).

Therefore, it came as no surprise that when the idea about the establishment of the Asian Infrastructure Investment Bank (AIIB) was first announced in October 2013 (Xu 2021, 196), it was met with dismay and alarm that it was going to be yet another way of projecting Chinese power, especially from the side of the US (Hameiri and Jones 2018, 574) and Japan (Haga 2021, 400). However, since its creation, the AIIB has managed to attract a variety of Western powers such as the UK and Australia¹ and now boasts as many as 109 members², which is the biggest among other regional development banks (RDBs)³.

Accordingly, many authors have since suggested various and often contradictory explanations as to why China decided to establish the AIIB if it represents such a substantial difference from China's usual practice of providing aid and China has since done everything to ensure that it is not seen as a tool of Chinese Communist Party, but a seemingly independent multilateral development institution. While it is essential to understand the reasons standing behind the creation of the AIIB, a further consideration of how much success the AIIB has achieved depends on the analytical approach one takes and may also help test these different hypotheses and check if at least some of them bear empirical evidence.

The AIIB is seen by many as a venue for status-seeking (Yang 2016) (Chow 2016), giving more voice to developing countries (Qian, Vreeland, and Zhao 2023), or promoting the BRI (Yang

¹ Asian Infrastructure Investment Bank. Governance. n.d. "Members of the Bank." Members of the Bank. Accessed April 28, 2024. <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

² "AIIB Grows to 109 Members Globally - News - AIIB." 2023. September 26, 2023. Accessed May 19, 2024. <https://www.aiib.org/en/news-events/news/2023/AIIB-Grows-to-109-Members-Globally.html>.

³ "Top Multilateral Development Banks - an Overview." 2021. DevelopmentAid. March 16, 2021. Accessed May 19, 2024. <https://www.developmentaid.org/news-stream/post/76903/top-multilateral-development-banks-an-overview>.

2016, 767) (Babones, Åberg, and Hodzi 2020, 330). While the first two reasons are quite obvious and do not require special investigation, the third one seems particularly intriguing, as when the AIIB project allocation was analyzed, it was found out that the AIIB acts as a complementary to the BRI (Haga 2021, 410) (Hameiri and Jones 2018, 575) specifically targeting countries which do not have strong economic or political ties with China, which is called a “remedial economic multilateralism” (Kaya, Kilby, and Kay 2021, 11). Also attracting attention is the recent research convincingly positing that China has given more membership shares to the countries economically and politically more distant from China and the BRI to increase the AIIB legitimacy (Kaya and Woo 2022).

Therefore, in this paper I plan to answer the research question of how (if at all) successful AIIB has been in bringing politically “distant” countries into Chinese development finance, or at least to the AIIB, thus substantiating to some extent the Chinese development model’s advantages. A variety of quantitative methods will be used, including an analysis of trade, FDI flows, bilateral economic agreements, a number of bilateral visits, and the AIIB activity in a certain country to measure how the AIIB can be used by China to reach out to more politically “distant” states.

Qualitative analysis will focus on the official statements, resolutions, media to assess if “distant” member countries’ opinions have become more welcoming of Chinese development aid or AIIB activity with time. Due to the complexity of the endeavor, only two countries will be chosen for the qualitative analysis – India and the Philippines. The choice is explained by the fact that India has attracted most investment in the AIIB but has restrained from participating in the BRI⁴, which proves its general economic and political distancing from Chinese initiatives.

Regarding the Philippines, it is considered as a traditional ally of the US⁵ which is wary of Chinese development finance. However, while it exited the BRI in 2023⁶, at the same time it requested from more loans from the China-led AIIB the same year, so it seems reasonable to investigate why there is such inconsistency and analyze the dynamics of the Philippines’

⁴ Wang, Christoph Nedopil. 2024. “Countries of the Belt and Road Initiative (BRI) – Green Finance & Development Center.” 2024. Accessed May 20, 2024. <https://greenfdc.org/countries-of-the-belt-and-road-initiative-bri/?cookie-state-change=1716728907225>.

⁵ House, White. 2024. “Fact Sheet: Celebrating the Strength of the U.S.-Philippines Alliance.” The White House. April 11, 2024. Accessed May 19, 2024. <https://www.whitehouse.gov/briefing-room/statements-releases/2024/04/11/fact-sheet-celebrating-the-strength-of-the-u-s-philippines-alliance/>.

⁶ Walker, Tommy. 2023. “Philippines Drops China’s Belt and Road as Tensions Flare.” Dw.Com, November 8, 2023. Accessed May 22, 2024. <https://www.dw.com/en/philippines-drops-chinas-belt-and-road-as-tensions-flare/a-67344929>.

participation in the AIIB⁷. While both India and the Philippines represent cases of politically “distant” states, the latter had a short period of the improvement of the relations with China under Duterte, so comparing different periods would enhance our understanding of how the AIIB functions in these “distant” states.

Testing these theories will prove whether China follows the path of a “dirty work” hypothesis as outlined by A.Dreher (2022, 1933), or the AIIB is none other than another example of a “ruggedness” of Chinese development aid with distinct characteristics but no substantial value in it (Hameiri and Jones 2018, 593). My hypothesis is that a more politically “distant” borrower in need of Chinese finance will play a “multilateral Bank” card in order to borrow from the AIIB, while refraining from participating in other channels of Chinese development finance. Through this China may have a chance to reach out to more politically “distant” states to attain its own goals.

Methodologically I will use the sociological constructivist approach in the institutional analysis as done by M.Barnett and M.Finnemore (2004) in their analysis of the IMF and C.Weaver (2008) in her analysis of the World Bank. The authors discuss the issue of international organizations (IOs) authority and autonomy. M.Barnett and M.Finnemore substantiate that the IOs exist because member states do not possess the necessary knowledge and expertise to fulfil what IOs are supposed to do, from where they derive their authority (2004, 22). That seems to be exactly the case with the AIIB, as China so far lacks experience in managing multilateral projects. At the same time, IOs have to walk a narrow path: they need to both stay autonomous in order to perform their function (in case with the AIIB it is to implement projects successfully and show the Bank’s multilateral character) and also show their loyalty to the powerful members’ interests (ibid). Another source of authority is professional technocratic staff that imbues the IO with a visibility of objectivity and unbiasedness (ibid, 24).

The authors also posit that one of the ways IOs can exercise autonomy is to promote state interests. States invest IOs with greater autonomy, as otherwise they would not be able to achieve specific goals, and the question here is what those interests are and how they manage to advance them (ibid, 27–28), which is the essence of this paper.

⁷ Calculated by the author according to: “Project List - Project - AIIB.” n.d. Accessed May 12, 2024. https://www.aiib.org/en/projects/list/year/All/member/India/sector/All/financing_type/All/status/All.

C. Weaver analyzes the issue of hypocrisy in the functioning of the World Bank. While she has no doubts that it impairs the MDB's image and performance, she admits that this may be its necessary feature (2008, 3), given the conflicts of agenda, mission and members' interests (ibid, 6). She reflects that this is explained by the origin of the Bank's legitimacy and funding resources in multiple member states (ibid), and that is also true for the AIIB and will be applied during the analysis of AIIB documents, displaying the same "hypocrisy". However, the AIIB is not as old as the World Bank, so many findings applicable to the World Bank cannot yet be attributed to the AIIB, so, in my opinion, it may display a lesser degree of autonomy from China than the established MDBs from their powerful member states. She also highlights that dominant donors exert a considerable material and normative influence through informal oversight mechanisms (ibid, 49), which may be especially true for the Beijing-located AIIB.

The analysis is relevant, as the AIIB represents a novel development among Chinese-led foreign aid institutions combining Western and Chinese models, and the real consequences of such an endeavor are both far-reaching and underexplored. The paper's implications may be important for the researchers of the Chinese development aid, the interaction between and emulation of different models and the ways founding countries utilize multilateral organizations for their advantage.

The paper is organized as follows: it first looks at the relevant literature surrounding the creation and the functioning of the AIIB and identifies a research gap in there. The next chapter is the institutional analysis of the AIIB with a focus on how Chinese influence is engrained in the Bank's formative documents, staff formation, as well as its operation. The following chapters analyze the AIIB dynamics in India and the Philippines, and the conclusion summarizes the findings.

Literature Review

There is substantial body of literature exploring multilateral aid regimes. Dani Rodrik outlines information provision and independence of multilateral development institutions making them more convincing at promoting conditionality as two main reasons of why there are so many of them (1995, 2). Additionally, it also is supposed to be more responsive to borrowers' needs and produce more predictable finance flows (Riddell 2008, 113). This explains the logic of functioning of such institutions as the World Bank or the IMF, and to a certain extent of the AIIB, quite well, even though it does not impose conditionality upon recipient countries (Chin and Gallagher 2019, 248).

Another strand of research analyzes the political influence of donor states on the established Western-led multilateral institutions. M.Barnett and M.Finnemore (2004, 48–50) point out that the US has been influential in the agenda-setting and decision-making at the IMF due to the allocation of funds and the headquarters' location in Washington. A.Dreher (2018, 23–24) further contributes to this contending that loan allocation at the World Bank and the IMF also often favours middle-income and rich countries and countries associated with the major shareholders generally get better terms. However, as stated above loan direction in the AIIB has been shown to favour countries which are not politically aligned with China, which is worth exploring more in detail.

Regarding Chinese development finance, Sh.Hameiri and L.Jones (2018) show how it so far has been characterized as inconsistent and incomprehensible, consisting of a large number of institutions that contend for greater influence and greater resources. Generally, it is aimed only at economic viability of projects disregarding environmental and social impact (2018, 590), and often dangerously increasing recipient countries' debt levels (ibid).

In contrast, G.Chin and K.Gallagher (2019) promote the idea of a “coordinated credit space” in Chinese development finance. They claim that Chinese development institutions are backed by prominent state support and a coordinated government policy through which policy banks cooperate with private banks to provide developmental loans to recipient states, which differs them from the Western developmental model (2019, 251–52). Through this Chinese development finance has been focused on priority spheres for China such as energy and infrastructure and is also provided on a large-scale basis with no policy conditionalities whatsoever, whereas Western-

backed institutions focus on poverty alleviation and climate change adjustment and introduce conditions to borrowers (Chin and Gallagher 2019, 248).

While I acknowledge that Chinese development finance has not been as coherent as these authors present, and internal struggles and irregularities encumber Chinese development aid, I agree with these authors that a certain responsibilities division exists in the sphere of Chinese development aid, and a certain role has been allocated to the AIIB in this regard, which differs greatly from the existing Chinese development institutions.

Other researchers such as Sk.Groce and S. Köstem, indicate that in the region of the Caucasus and Central Asia a “dual transformation” is underway through which Western-led institutions have become more embracing of coordinating policy efforts with receiving governments and public actors, while Chinese-led institutions, particularly the AIIB, are more ready to adhere to the Western environmental and social standards (2023, 194). As regards the question why the AIIB is trying to emulate Western practices, the authors provide such reasons as “learning” from experienced multilateral institutions, trying to influence them from the inside and also for status-establishing purposes when collaborating with them (2023, 190). However, the question of whether there are any advantages for China, apart from getting experience and status enhancement, is left unanswered.

AIIB differs a lot from the majority of Chinese development institutions and represents a hybrid model of development aid, and a large number of authors have come up with different reasons regarding its creation, which represents the biggest point of contestation. Zh.Chen and Y.Liu argue that the AIIB was created as a response of China to the lack of representation at the leading multilateral institutions such as the World Bank and the IMF (2018, 11). They have adopted a “strategic reassurance” framework which means that China will try to adhere to the established norms and practices to show that it is a responsible stakeholder willing to play by the rules while also advocating for the reform of established Western-led institutions. This would enhance its credibility and trust from Western powers, while also serve as a possible “exit” option with which it could indirectly threaten them (2018, 5–9). The researchers also note that the AIIB coincided with the creation of the BRI, and even though it was not by chance, the AIIB leaders have striven to distance the bank from the BRI (2018, 16) to increase its multilateral quality and “reassure” the world.

The link between the BRI and the AIIB requires further attention. Some authors do not challenge the idea that the AIIB is associated with the BRI, and analyze it in the broader context of Chinese development finance, while at the same time acknowledging that project implementation considerations have been more important than challenging the current system (Babones, Åberg, and Hodzi 2020). However, the majority of authors agree that the AIIB either complements, or even diverges with the BRI in some respects. According to K.Haga, through the AIIB China realizes the policy of “economic statecraft” that aims to advance its role on the world stage by economic means. It is different from the idea of “economic diplomacy” through which China could be benefitting its economy directly. She lists 20 reasons for China’s support of the AIIB and verifies them by empiric evidence (2021, 413–14). Regarding the BRI, while she admits that most of borrowers are located along the BRI routes, the AIIB funding has largely favoured countries which are not closely aligned with China such as India (2021, 410). Sh.Hameiri and L.Jones also agree that the AIIB has been marginalized in providing finance for the BRI (2018, 575).

Finally, A.Kaya, C.Kilby and J.Kay empirically analyze the patterns of aid allocation at the AIIB and find out that a “remedial multilateralism” takes place: countries that are less economically aligned with China receive more loans which are also bigger in size and the allocation process is faster (2021, 11). According to this concept, China would not like to risk the multilateral quality of this institution and overtly use its influence to back up close countries, and instead it targets more “distant” countries, thus reducing the costs to its image as a promoter of the AIIB and also serving further goals of expanding ties with these states and creating a positive image of Chinese international policy there (2021, 5). What is more, A.Kaya and B.Woo have concluded that on its quest to increase legitimacy, China has been trying to attract distant states through allocating higher share membership to them (2022). The researchers have conducted in-depth interviews and engaged in a quantitative analysis to show that indeed, countries which are politically distant from China or countries which are not members of the BRI, receive higher membership shares (2022, 809). This is possible due to the opacity beyond the formula for calculating shares: while it is strongly correlated with GDP, a precise formula has not been published (2022, 783). The goal of these compromises was, again, to create a “high reputation” for this nascent development institution (2022, 789).

These hypotheses have been quite convincing, and in this paper I would like to analyze how the AIIB has been successful in either bringing together more “distant” countries both economically and politically, or enhancing the image of the AIIB there, which would also bring benefits for “Chinese multilateralism” image and let Chinese development finance be directed in these “distant” states. Positive results could be indicative of a successful Chinese strategy in “strategic reassurance”, as well as “remedial multilateralism” and have further implications for the analysis of Chinese foreign aid policy and diplomacy.

Chapter 1: How Sinicized Is the AIIB? The Institutional Analysis of the Bank

In this chapter I analyze the autonomy of the AIIB and explore how pronounced Chinese interests here are. I find that while the AIIB resembles Western-led MDBs a lot and has incorporated some of the Western states' concerns into its operation, sometimes the principles of sustainability and transparency it claims are not backed up by strong enough institutional arrangements. Besides, China has many levers of interest in the Bank, such as the biggest voting power, the headquarters' location in Beijing, the Chinese President and management staff which are delegated more decision-making capacity compared to the West-led MDBs.

1.1. *Creation of the AIIB*

This section looks at the AIIB creation process to consider which role China had envisaged for the AIIB in the beginning, how it accommodated the Western states' concerns afterwards, and what was the result of these efforts and negotiations.

The history of Chinese thought on multilateral development banking goes back to Sun Yat-sen who as early as in 1922 proposed to create an international organization that could attract capital from all over the world to help China's development (Helleiner 2019, 146). He also promoted the ideas of infrastructure development, state-led support and non-intervention, which are evident in the case of the AIIB (Helleiner 2019, 151–52). Finally, the China-led bank was created in June 2015 ('Articles of Agreement - Basic Documents - AIIB' 2015, 28). The original idea was announced by Xi Jinping in October 2013 which has prompted some analysts to suggest that the bank was created in order to support the nascent BRI (Haga 2021, 395). However, even the BRI blueprint itself shows that (probably initially) the AIIB was meant to serve its financial needs⁸.

⁸ The State Council of the People's Republic of China. "Full Text: Action Plan on the Belt and Road Initiative." 2015. March 30, 2015. Accessed April 27, 2024. https://english.www.gov.cn/archive/publications/2015/03/30/content_281475080249035.htm.

The process of its creation was when Chinese interests could be seen most clearly. While it was a multilateral arrangement from the beginning, it reserved a special focus on Asia, infrastructure and new financial conditions, while acknowledging that the bank “complements the existing multilateral development banks” (‘Articles of Agreement - Basic Documents - AIIB’ 2015, 1). However, emphasis on infrastructure is inherently a Chinese trait of development finance and it subtly shows how China externalizes its priorities through the AIIB (Stephen and Skidmore 2019, 88), even though, interestingly, in the 1950s-60s the majority of the World Bank lending was infrastructure (Liang 2021, 297), so the AIIB is not as innovative as it seems here.

From the beginning China engaged in a lot of diplomatic work trying to persuade other states to join. So it was touted as a great achievement for the Chinese diplomacy when quite a few countries of the West decided to join the AIIB as founding members despite obstruction from the US. It was the UK that decided to join first – a decision taken by the then Prime Minister David Cameron acting against the Foreign Office opinion⁹ and hoping to attract more Chinese capital through the support of the initiative, and then was followed by Germany, France, Italy, Australia, South Korea and Israel (Z. Chen and Liu 2018, 14). Accordingly, to account for the domestic backlash of these members, China allocated more membership shares to them than their GDP would have afforded (Kaya, Kilby, and Kay 2021, 809).

To check this claim, I decided to check whether these countries did ensure greater access to Chinese capital. I conducted a data analysis of the Chinese FDI outflows and found out that interestingly in 2016-2020, before COVID-19 consequences, the average outward Chinese FDI for AIIB founding members who are part of OECD (which unites most Western states) was higher than for those who are not OECD members, so this uplift in investments coincided with the first years of AIIB operation¹⁰.

⁹ Anderlini, Jamil. 2015. “UK Move to Join China-led Bank a Surprise Even to Beijing.” *Financial Times*, March 26, 2015. Accessed May 6, 2024. <https://www.ft.com/content/d33fed8a-d3a1-11e4-a9d3-00144feab7de>.

¹⁰ See Appendix 1 for a more detailed information on the analysis

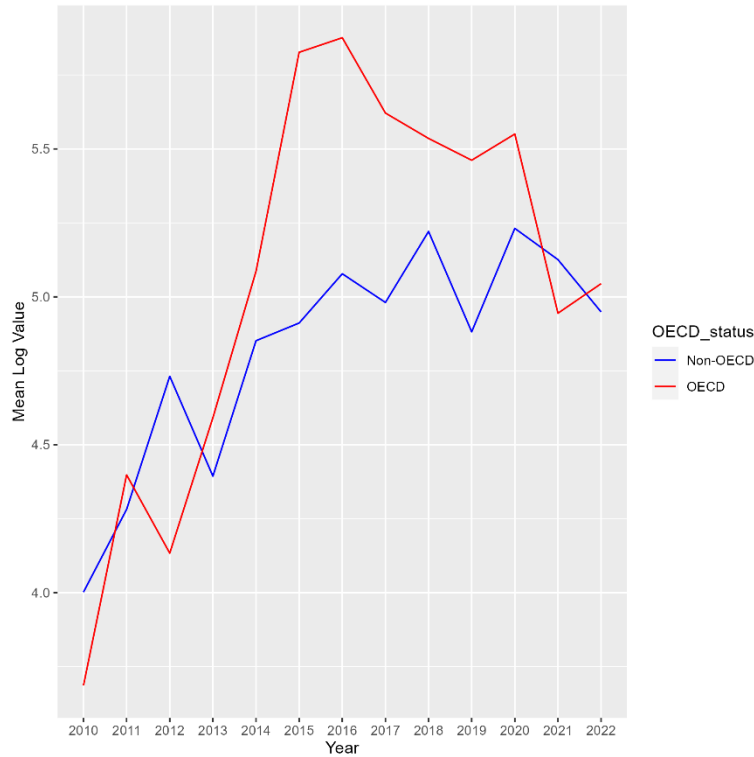


Figure 1. Mean Chinese Outward FDI-logged Values for OECD and Non-OECD Members

The inclusion of Western countries has greatly increased the legitimacy of the nascent MDB and surprised even China itself. However, it also had to agree to certain concessions, or pretend to do so, which will be discussed more in detail in the next part.

The AIIB defines regional members as those belonging to the region of Asia or Oceania according to the UN classification (‘Report on the Articles of Agreement of the Asian Infrastructure Investment Bank’ 2015, 2) which is already quite broad, and there is one exception in the case of Russia which is considered a regional member¹¹. It seems that here China also wanted to show support for its political partner, backed by the words of a negotiator that this was done on Russia’s request (Kaya, Kilby, and Kay 2021, 796). However, unlike leading multilateral development banks (MDBs), there is no division into developing and developed, or loan-taker and loan-giver, members, so that every member is eligible for AIIB support. Clear delineation of borrowers and lenders is part of banks’ due diligence, and absence of this in the AIIB case suggests that riskier projects could be given unreasonably favourable conditions, jeopardizing the functioning of the bank (Doron 2021, 1042–43). Besides, it also increases the informal influence

¹¹ Asian Infrastructure Investment Bank. Governance. n.d. “Members of the Bank.” Members of the Bank. Accessed April 28, 2024. <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

of the most powerful members (mainly China) over which members get the loans and under which conditions, rather than attributing this task to professional staff (Doron 2021, 1043).

What most analysts also agree is a Chinese influence lever is its actual veto power with 26.55% of the total votes¹² which has decreased only by 0.10 since 2018 (Wang 2019, 226). Initially China aimed at a 50% voting power, however, after negotiations with prospective Western members it agreed to lower its share to 30% and later to 26.6% after applying a new formula comprising a capital share, basic and founding member voting rights (Liang 2021, 292). Some researchers have suggested that Chinese share will diminish even further (Kaya, Kilby, and Kay 2021, 11) but it seems to cause no difficulty for China to form a coalition with minor partners and preserve its effective veto power if necessary, especially considering that Hong Kong is labeled as a separate member possessing 0.80% of total voting power¹³. This was most certainly made for the purposes of the AIIB (Horta 2019, 14), however, I am sure it also serves to make China's total share seem less visible, and considering that after the imposition of the National Security Law in Hong Kong in 2020 this city lost its remaining real autonomy, it will remain loyal to Beijing in the AIIB. Besides, it is stipulated in the Articles of Agreement that the share of regional members should not be less than 75% ('Articles of Agreement - Basic Documents - AIIB' 2015, 4), which, as persuasively proven by Haga (2021, 399), is exactly enough for China to preserve its veto power. It was stipulated in the Report on the Articles of Agreement that regional share could diminish, however, the lowest borderline was set at 70% ('Report on the Articles of Agreement of the Asian Infrastructure Investment Bank' 2015, 2), which would not be of much consequence for the Chinese potential ability to block the most important decisions if needed.

Besides, the AIIB headquarters is located in Beijing, and just as with the case of the World Bank (Weaver 2008, 52), it is logical to suggest that China will be able to exert at a certain influence (Chow 2016, 1262), also considering a high number of Chinese nationals in the chief positions of the bank (Stephen and Skidmore 2019, 78). Recently a major scandal occurred when the AIIB head of communications Bob Pickard, a Canadian national, resigned citing "toxic culture" and the prevalence of the Chinese Communist Party across all the divisions of the bank¹⁴.

¹² Asian Infrastructure Investment Bank. Governance. n.d. "Members of the Bank." Members of the Bank. Accessed April 28, 2024. <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

¹³ *ibid*

¹⁴ Chen, Laurie. 2023. "China-led AIIB's Communications Chief Quits, Criticises Bank's Management." Reuters, June 14, 2023. Accessed May 3, 2024. <https://www.reuters.com/business/finance/china-led-aiibs-comms-chief-quits-criticises-banks-management-2023-06-14/>.

In an interview he claimed that “the President’s office is dominated by the Communist Party”¹⁵. As a result, Canada, the only North American member, decided to suspend its operations in the AIIB and launch a review of its activities in the AIIB¹⁶. Such allegations disrupt the credibility of the AIIB as a multilateral institution separate from the Chinese influence and suggest that the bank is not as impartial as it seems to be.

Thus, at the beginning of the Bank’s functioning it was clear that the AIIB would leave enough leeway for China to exert influence on the AIIB, although it did resemble a regular MDB a lot, so now it is reasonable to compare the Bank with other MDBs and present an overview of its activities so far.

1.2. AIIB Among Other MDBs: General Overview

This section compares the AIIB with other MDBs and shows in which ways it resembles them and how it is also made distinct by China in its practical activity, as well as looks at the results of the AIIB operation so far.

The AIIB has a total subscribed capital of \$100 billion¹⁷, compared to \$175.4 billion of the ADB¹⁸ and \$307 billion of the World Bank¹⁹, though, the latter never uses its callable capital, relying on “paid-in” capital and low-interest borrowings from capital markets. This puts AIIB on par with other institutions, although the number of projects approved per year, as can be seen from Figure 1 below, is fewer than that of the established MDBs such as the ADB and the World Bank

¹⁵ PRovoke Media. 2023. “Ex-AIIB Comms Chief Bob Pickard.” Accessed May 3, 2024. <https://www.youtube.com/watch?v=boc7Y-9hQ3o>.

¹⁶ Alim, Arjun Neil, James Politi, and Joe Leahy. 2023. “Canada Freezes Activity at ‘China’s World Bank’ After Infiltration Claims.” *Financial Times*, June 15, 2023. Accessed May 3, 2024. <https://www.ft.com/content/f582dc60-482b-4c9e-821a-958807f80a5c>.

¹⁷ “About AIIB.” n.d. Accessed May 9, 2024. <https://www.aiib.org/en/about-aiib/index.html>.

¹⁸ Bank, Asian Development. 2018. “Media Advisory - ADB’s Capital Base.” Asian Development Bank. February 6, 2018. Accessed May 10, 2024. <https://www.adb.org/news/media-advisory-adbs-capital-base>.

¹⁹ “CRS the World Bank.” 2023. May 2023. Accessed May 10, 2024. <https://crsreports.congress.gov/search/#/?termsToSearch=world%20bank&orderBy=Relevance>.

which approve 200-300 projects per year²⁰²¹, while for the AIIB the corresponding number has been over 50 just once.

The diversity of the Bank led it to be made a UN Permanent Observer in 2018²². However, one of the main advantages the inclusion of developed countries had on the bank performance is that it received an AAA rating from Moody's, Fitch, and Standard & Poor's (Chin and Gallagher 2019, 263), so now it could borrow from international money markets at a low rate. The bank not only cooperates with these Western credit agencies, but also has cooperated a lot with Western MDBs in order to get expertise, more recognition and experience in managing development projects. Being a young multilateral development bank, the AIIB has relied heavily on co-financing projects with other MDBs, especially the World Bank and the ADB. During the first years of operation it supported 80% of its approved projects (Liang 2021, 290), however, then it aimed at reducing co-financing to 50% (2021, 293) and even less, after it is able to increase its expertise. Through this not only does the AIIB get experience and learns how to engage in multilateral development, but it also participates in norm shaping and can also enrich Western MDB's perspectives on engagement with the borrowers and infrastructure projects implementation (Skalamera Groce and Köstem 2023), so the aspect of co-learning is essential for both. Besides, through this China can extrapolate its norms on established MDBs. Figures below show that before COVID-19 the share of co-financed projects was steadily decreasing, but after the pandemic it seems that the AIIB was in a vulnerable position, as borrowers were affected greatly, so it hedged risks and cooperated with other MDBs, and after the pandemic the number of co-financed projects started to decline again.

²⁰ "Projects." 2022. Asian Development Bank. December 28, 2022. Accessed May 11, 2024. <https://www.adb.org/projects/year/2022>.

²¹ "The World Bank Project Cycle (English)." n.d. World Bank. Accessed May 10, 2024. <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/696601478501928227/the-world-bank-project-cycle>.

²² "About AIIB." n.d. Accessed May 9, 2024. <https://www.aiib.org/en/about-aiib/index.html>.

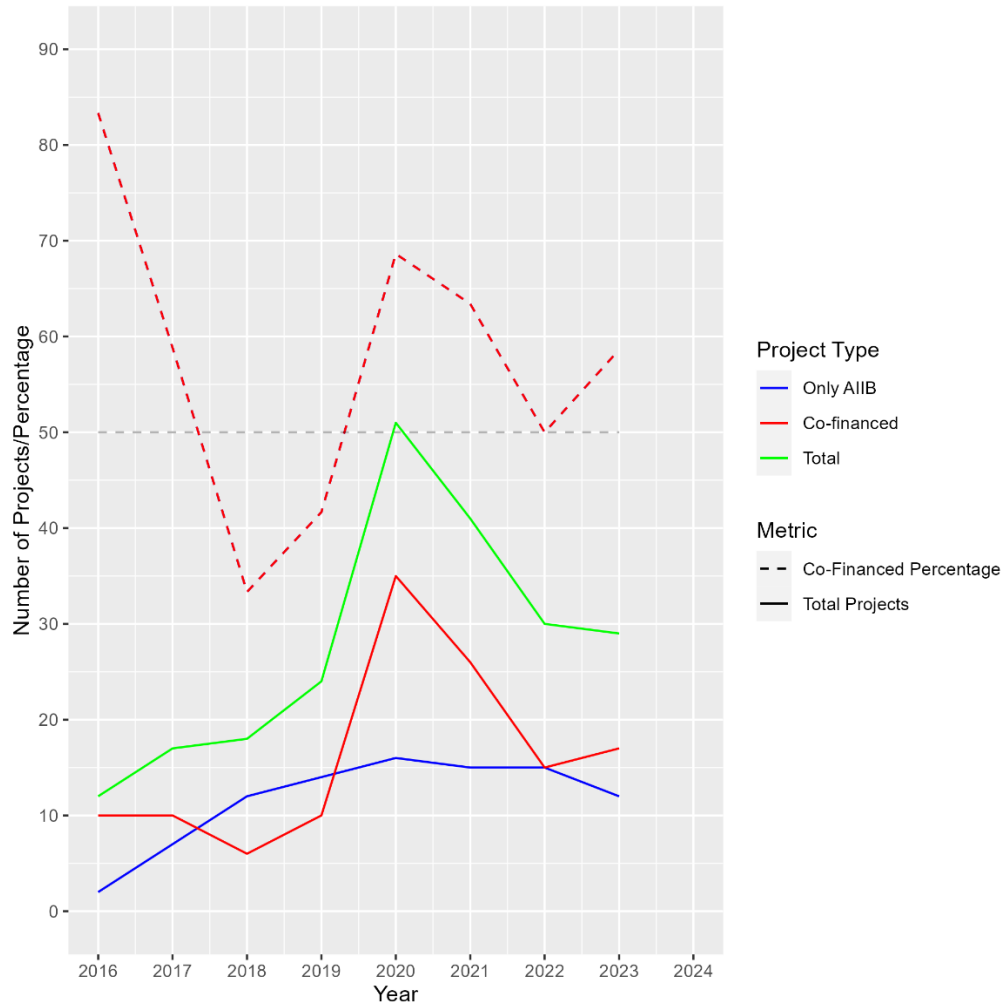


Figure 2. Approved projects of the AIIB²³,

²³ This and the following figures were calculated by the author using project data from the AIIB website (“Project List - Project - AIIB.” n.d. Accessed May 02, 2024. <https://www.aiib.org/en/projects/list/index.html>) that was gathered through web-scraping and then processed to find out a co-financed number, the R script can be requested from the author

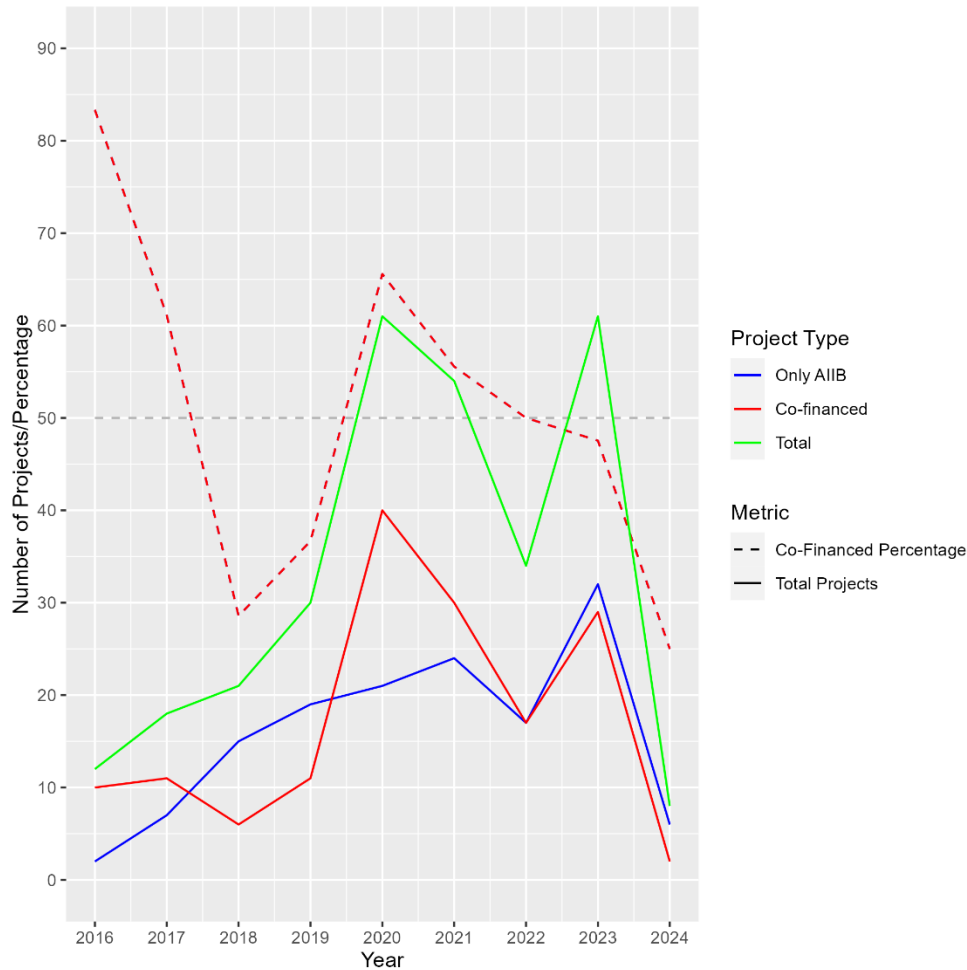


Figure 3. Total number of projects, including proposed, on hold, terminated and cancelled

Referring to a micro-level of analysis would shed some more light on the “Chinese characteristics” AIIB projects are endowed with. Compared with the traditional MDBs, the AIIB may be more innovative and efficient but much less attentive to details and scrupulous. In contrast to the ADB, the most evident competitor of the AIIB, the AIIB has introduced the electronic tendering platform and regular supervision and control system (Zhao, Gou, and Li 2019, 283) in a similar project. It is also more risk-prone, while the ADB is more concerned with social safeguards (ibid, 280). There is also less available public information disclosed by the AIIB than by the ADB (ibid, 285), which is also a feature of Chinese development.

A similar comparison can be made between the World Bank and the AIIB. One of the major distinctions is that the AIIB focuses on infrastructure, transport and energy projects, while the World Bank is concerned with poverty reduction and development finance (Mawdsley 2018, 9). Another difference is that the AIIB is more inclusive and adopts local laws and regulations more

eagerly than the World Bank that stipulates that in case of the contradiction between its policies and local programs, its own should prevail (Apolinário Júnior and Jukemura 2022, 706). What is more, considering environment provisions, the AIIB provides a bigger number of them but less information and shallower analysis (ibid).

Now it is important to see the distribution of the AIIB loans. According to the figures below, top destinations of the AIIB projects (excluding China) are India, Bangladesh, Indonesia, Turkey, the Philippines, and Uzbekistan. In terms of co-financing, the majority of projects are financed 50-50, however, the Philippines stands out, as here almost all projects are co-financed, which may point at the prevalence of other MDBs (ADB) here and suspicion of the China-led development finance from the Philippines.

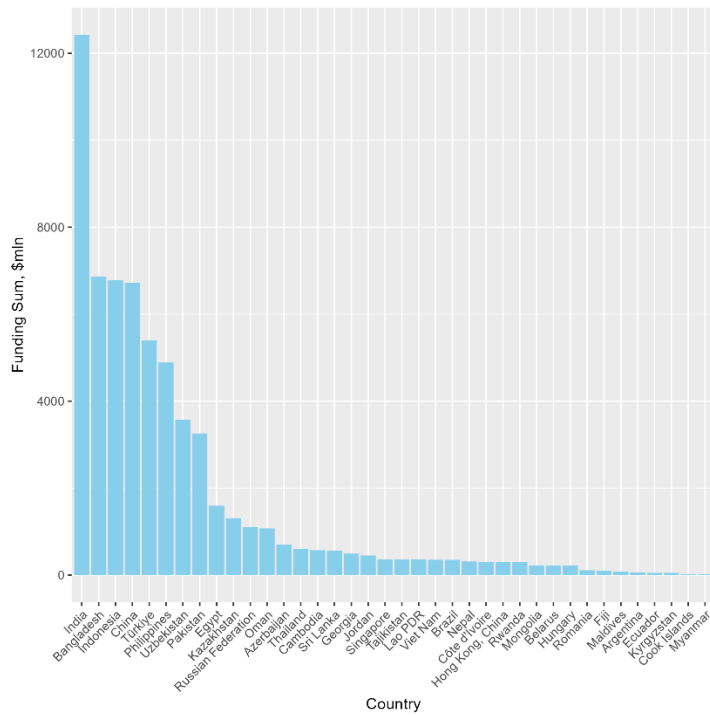


Figure 4. AIIB Total Funding by Country

income almost reached a record \$1 billion (‘Financial Statements’, n.d.) , and the bank keeps increasing its number of projects over years. This has demonstrated that the Bank has so far stayed economically successful, which may prompt members to continue borrowing from it.

Accordingly, the Bank has so far relied on co-financing with other leading MDBs, which has increased its legitimacy and image as a true multilateral development institution. At the same time, it represents a distinct approach from the established practice and resembles a Chinese way of engaging in development. A further consideration of the AIIB design is necessary to decide what levers China has inside the Bank.

1.3. Institutional Design of the AIIB

This section analyzes the role of a non-resident Board of Directors (BoD), Bank’s accountability and oversight frameworks, as well as the role of the President and the management. The main findings are that through a non-resident BoD, opaque and ineffective frameworks, and Beijing-based management has many influence levers to direct the Bank’s operation, affecting the “where” and “how” of the projects’ implementation.

One of the points of contestation between China and the West about the design of the Bank was the status of the BoD. According to the Articles of Agreement and as in many MDBs (even though some authors mistakenly attribute this to the AIIB’s innovation (Chin and Gallagher 2019, 263), the Bank’s governing structure is divided into the Board of Governors, the Board of Directors and the management led by the President (‘Articles of Agreement - Basic Documents - AIIB’, n.d., 28). The AIIB has been propagated as a “Lean, Clean and Green” bank (Xu 2021, 197), and one of measures to enhance efficiency allegedly was to create a non-resident BoD²⁴. Supposedly, the Chinese monitored the inefficiencies of other MDBs and found out that the resident BoD is simultaneously faced with two problems: the dual role of the BoD and the lack of accountability (Zhu 2019, 655). First, each country Director is tasked with both representing their country’s interests and serving the interests of the bank, out of which the former often overshadows the latter, because it can provide more career benefits (Gu and Xu 2022, 312), so they may push the projects

²⁴ A few banks, though, also have a non-resident board, including the European Investment Bank, the Caribbean Development Bank, etc. (Gu and Xu 2022, 314)

in direction favourable to their national countries or choose corresponding companies to implement them (ibid). Besides, accountability suffers, as Directors formally approve the projects proposed by the management or sometimes even design concrete guidelines for the management, so it is unclear who bears the responsibility if projects are unsuccessful (Gu and Xu 2022, 312). Additionally, the Directors do not possess the necessary time to monitor and assess all the projects, so the oversight function lags behind (Gu and Xu 2022, 312). However, Western prospective members feared that a non-resident BoD would not have any supervision over the decisions of the management, especially considering that the Director is a Chinese national (Zhu 2019, 656).

Therefore, a “consensus” reached by China and the West was to establish a non-resident BoD, which was responsible for creating a general vision and an overall strategy for the Bank, while for projects in Asia, their consideration and approval was delegated to the Bank’s management (Zhu 2019, 656), led by the President. In order to control the management staff, a special “Compliance, Effectiveness and Integrity Unit” (CEIU) was established that should be separate from management and be subordinate to the BoD only (Zhu 2019, 656). This unit will be discussed later, but it was also arranged that before making an investment decision, the President would have to discuss it with the Executive and Investment Committee (Zhu 2019), which are, however, both headed by the President, who, I believe, still possesses a large influence there. The Accountability Framework outlining all of these was adopted in 2018, with revisions in 2023 (‘Accountability Framework - Governance - AIIB’, n.d.). The document also sets limits on the power of the President to approve loans – the BoD decides upon the first sovereign and non-sovereign projects in a Member, the first project in a sector in each Member, a project in a non-regional Member and some others, while also setting the financial limits: the President may approve projects of up to \$200 mln for sovereign ones, \$100 mln for non-sovereign ones and \$35 mln for equity investments, with the 2023 revision raising the first two limits to correspondingly \$300 mln and \$150 mln (‘Accountability Framework - Governance - AIIB’, n.d.).

The non-resident BoD has produced mixed opinions among researchers. Bin Gu and Chengjin Xu claim that such a decision helps save funds, mitigate the consequences of a BoD’s dual role and delineate responsibilities between the Bank’s bodies (Gu and Xu 2022, 314). They go so far as to consider the limits mentioned above as unjustifiable, adding to the inefficiency of the Bank and suggest that the powers of the BoD should be diminished even more, while providing more power to the President and technical staff (Gu and Xu 2022, 315–16). They also describe a

“robust” oversight mechanism in the Bank, represented by the Accountability Framework and the Oversight Mechanism adopted in 2019 (‘Oversight Mechanism - Governance - AIIB’, n.d.): three “lines of defense”, the CEIU, the Administrative Tribunal, external audit and the Directors’ Forum (Gu and Xu 2022, 317). Regarding the lines of defense, they refer to 1) screening and reviewing projects; 2) risk, control and compliance oversight; 3) internal audit (‘Accountability Framework - Governance - AIIB’, n.d., 9), however, they are all under management control (Gu and Xu 2022, 317).

The CEIU, as the Accountability Framework explicitly states, unites three functions of integrity, project complaints and projects evaluation which are carried out in different departments in other MDBs (‘Accountability Framework - Governance - AIIB’, n.d., 8), which is regarded as a major “innovation in governance” by these authors (Gu and Xu 2022, 318). They state that the Managing Director of the CEIU reports directly to the BoD, which signifies its independence ((Gu and Xu 2022). However, they also caution that the success of the CEIU rests with the clear demarcation of responsibilities with the President, and the CIEU should not be “captured” by the management (Gu and Xu 2022, 319–20). As for the Administrative Tribunal, it has not been established yet, and external audit deals with reviewing financial statements and financial reporting (‘Oversight Mechanism - Governance - AIIB’, n.d., 5), which is important, but, in my opinion, still enables the management to direct the performance of the Bank.

As for the Directors’ Forum, it is largely a consultative body inside the AIIB that consists of Directors and convenes without the President, which Bin Gu and Chengjin Xu call “the most forceful component to hold the President accountable” (2022, 322). However, the paper on the Oversight Mechanism underlines that this forum is for information and views exchange only (‘Oversight Mechanism - Governance - AIIB’, n.d., 8), and the authors themselves also stress that it is not a decision-making body and should not abuse its position (2022, 321). Besides, it is also non-resident, which further limits its possible implications. In their conclusion, Bin Gu and Chengjin Xu whose article was sponsored by a Chinese Fund (2022, 324) suggest following “advisory engagement” rather than “the western style of adversary check” (2022), and the point of their work seems clearer.

Some researchers²⁵ echo the AIIB's claims of raising efficiency, reducing operation and staff costs, streamlining project approvals, without going into detail and analyzing the specific documents and the way the Bank functions, though also sometimes hinting at Western states' concerns over the lack of oversight. However, other analysts are more skeptical. Kai Yin Allison Haga (2021, 401) admits that this has enabled the President to enjoy greater power and therefore China can possess a larger influence in this MDB. Wei Liang (2021, 290), A. Kaya et al. (2021, 3) show that a non-resident BoD may fail to be up to date with the information about projects, leading to less scrutiny from the national governments, which prompted some European governments such as Germany and Austria to place their AIIB representatives at their Beijing embassies. A comprehensive paper by Korinna Horta (2019) debunks the majority of the aforementioned claims about the Bank's robust accountability mechanism. She starts with the term "Accountability Framework" itself: while in the recognized MDBs similar documents concern separate independent entities aimed at considering compliance complaints or mediating conflicts (2019, 17), this AIIB document enlarges the role of the President and deprives the BoD of reviewing and financing loans (2019, 18). Incidentally, even Bin Gu and Chengjin Xu admit it should have been named differently (2022, 315).

K. Horta emphasizes that the financial limits for the President's approval are bound to increase over time (2019, 18), and they already did in 2023. Besides, the access to information of the BoD is also very limited: prior to a financing decision members receive some basic information (2019, 19), later followed by a not very detailed project summary. The author points out that the European governments boasted that their efforts resulted in the establishment of a "One-Director Rule" through which a project should be discussed if at least one Director raised such a point (2019, 19), however, in other MDBs it is a rule that BoD discuss all projects in detail, rather than specific ones. The researcher then analyzes the AIIB Policy on Public Information (PPI) and concludes that while the Policy has all the right words, it does not provide a specific list of documents with timelines to be disclosed and contains a lot of exceptions to information disclosure, the latter even receiving criticism from the UNHCHR (2019, 20–22).

²⁵ Jiejun Zhu (2019, 656), Natalie Lichtenstein (2019, 584) (I cannot rule out a certain possible degree of bias here, as she was also one of the authors of the AIIB AoA (see "AIIB: A Guide - NCUSCR." 2022. NCUSCR. August 12, 2022. Accessed May 5, 2024. <https://www.ncuscr.org/video/aiib-a-guide/>), Matthew D. Stephen, and David Skidmore (2019, 74), Hai Yang (2016, 771)

The author also outlines the inefficiency of the CEIU: it combines monitoring, evaluation and integrity, findings of which may contradict one another (2019, 22). Besides, it is the President who establishes the CEIU (‘Accountability Framework - Governance - AIIB’, n.d., 8), so it is hard to expect deviant behavior from it. A lack of information provision and vague enforcement mechanisms are also among the problems mentioned with regards to the AIIB ESF, also confirmed by numerous scientists (Horta 2019, 25–26). The researcher also reviews major problems with the Project-Affected People’s Mechanism (PPM) of the AIIB which is hurdled with bureaucracy: affected people have to go through two internal mechanisms of the bank’s before initiating a review process (2019, 31). The insurmountability of the red tape is confirmed by the media: after five years of functioning the AIIB, dealing with large infrastructure projects definitely affecting the locals’ lives, has not conducted a single through its PPM, causing a lot of complaints, which led to the Bank’s agreeing to reconsider this mechanism to increase its accessibility²⁶.

This essentially proves, that the AIIB has been successful in mimicking the established MDBs in terms of their internal mechanisms, but in fact they lack real essence, and led to the concentration of power in the hands of the management and the President, steering the development of the Bank and projects’ approval, which supports my hypothesis that China has many levers to direct how the Bank functions.

The Bank’s performance and adherence to multilateralism are also closely connected with the behavior and the position of its president. The Articles of Agreement (AoA) hold that the president should come from a regional member state (‘Articles of Agreement - Basic Documents - AIIB’ 2015, 17) and, considering the role of China in the creation and supporting the AIIB, this role is (and probably will be) assigned to a Chinese national. In addition to the immense powers mentioned above, the President also decides on which information to be disclosed under the PPI: they deal with external requests for information (para 7.2), decide whether to disclose some information (para 9.1.1) or recommend the BoD that some information should not be made public (para 9.1.2), and also create an internal classification system for the Bank’s information (para 11)(‘Policy on Public Information - Policy on Public Information’, n.d., 3–5). Now the position is held by Jin Liquan who is well-known among the leadership of the MDBs, as he worked at the

²⁶ Goyal, Radhika, and Radhika Goyal. 2024. “AIIB Must Give Local Communities a Voice in Development Projects.” South China Morning Post, February 17, 2024. Accessed May 8, 2024. <https://www.scmp.com/comment/opinion/asia/article/3252089/aiib-must-give-local-communities-voice-development-projects>.

Asian Development Bank (ADB), the IBRD and served as the Alternate Executive Director for China in the World Bank (Wang 2019, 234), so he is obviously a member of the Chinese Communist Party. He also has a reputation of a “Barbarian handler” alluding to his ability to pit European countries against one another²⁷. While he has been touted as an effective and charming leader who has been able to navigate the AIIB well so far (Kaya, Kilby, and Kay 2021, 403), he still foresees a bigger and more ambitious role for China (ibid, 396), so he is not particularly impartial here either. It remains to be seen whether future presidents will enjoy the same prestige as Jin. China also made strategic appointments among the Bank’s leadership: three out of five vice-presidents are European, and the Chief Economist Erik Berglof previously served as a Chief Economist for the European Bank of Reconstruction and Development, granting further legitimacy and authority to the AIIB (Barnett and Finnemore 2004, 24)

All these indicate that China has strived to present the bank as multilateral and itself as a responsible player conforming to the established practice and yielding to the external pressure, so that the Bank could be included in the family of established MDBs, which was the Chinese goal. However, the majority of oversight mechanisms are mostly a lip service paid by China to the Western concerns, while the real power is concentrated in the Bank’s management, due to which it may decide upon which projects get approved and how much financing they get. The next chapter deals with the analysis of two important recipients – India and Philippines, both of which are wary of Chinese development finance in general, but nevertheless actively borrow from it.

²⁷ Anderlini, Jamil. 2015. “UK Move to Join China-led Bank a Surprise Even to Beijing.” *Financial Times*, March 26, 2015. Accessed May 6, 2024. <https://www.ft.com/content/d33fed8a-d3a1-11e4-a9d3-00144feab7de>.

Chapter 2: Impact of the AIIB Membership on Indian-Chinese Relations

In this chapter I will look at the Indian participation in the AIIB to consider whether it brought any tangible benefits to China, and if yes, which ones. I will first consider some general facts about Indian participation and then touch upon economic and political implications of Indian membership.

2.1. India in the AIIB: Inclusion and Status

This section looks at the process, conditions and overall results of India's inclusion in the AIIB. India and China have been competitors and even adversaries for decades. China claims certain Indian territories as its own, cooperates actively with India's greatest rival – Pakistan – and engages in territorial conflicts with its biggest neighbor, the latest of which happened in 2020 in Ladakh (Kumar 2021, 223). Therefore, India weighs carefully every time whether to engage with a Chinese initiative, as it has not taken part in the BRI, citing security concerns and especially the fact that one of BRI landmarks – the Chinese-Pakistan Economic Corridor (CPEC) – goes right through the Indian territory (Wu 2020, 359). Why did then India join the AIIB which is a China-led initiative?

During its creation, the AIIB invited all prospective members to the negotiation process, and India took part in the creation of the bank on an equal basis²⁸. This inclusion guaranteed that Indian concerns were accounted for and India could be sure that it is a multilateral institution, as the main concern about the BRI is that it is seen as a unilateral Chinese tool, through which China increased its role in the traditional Indian sphere of interests – South Asia and the Indian Ocean (Wu 2020, 364). India was also able to mitigate another worrying aspect of the BRI's CPEC – due to Indian efforts a clause was included in the AIIB “Operational Policy on International Relations” that a project in a disputed territory can proceed only if parties to a dispute agree on that²⁹. This indicates

²⁸ Kumar, Sanjeev. 2019. “Evolving Perspectives on AIIB - Indian Council of World Affairs (Government of India).” June 21, 2019. Accessed May 13, 2024.

https://www.icwa.in/show_content.php?lang=1&level=3&ls_id=4791&lid=2210.

²⁹ Madan, Tanvi. 2016. “What India Thinks About China's One Belt, One Road Initiative (but Doesn't Explicitly Say).” Brookings, March 14, 2016. Accessed May 13, 2024. <https://www.brookings.edu/articles/what-india-thinks-about->

that the AIIB also functions as a forum for discussion, which is appealing for India. Another reason for joining was that after weighing carefully the consequences, not taking part could give upper hand to Pakistan, and India would lose more not joining the Bank (Mishra 2016, 171–72). Additionally, to prevent being accused of a double game, India claims that it joined the AIIB before the start of the BRI (Choudhury 2023, 114), so it accepted the former but declined the latter.

Besides, there is a distinct need for infrastructure development in India, made explicit by the current Prime Minister Narendra Modi's administration that defines infrastructure as the country's top priority³⁰. So for India AIIB provides access to much-needed development finance, while mitigating its security concerns through an open consultative process (Kumar 2021, 229). The AIIB helps India build its transportation network and spur local development (Chen and Cai 2024, 1). Finally, India, as well as China, has long been disappointed with the mismatch between its economic power and its lagging voting power at other MDBs, so membership at the AIIB that considers Indian GDP and places it second after China and way above Western powers, enhances its status in the international arena and aligns well with Indian vision and aspirations (Wu 2020, 367). Indian national is the AIIB Vice President³¹, which underscores Indian status in the organization, and it also hosted the AIIB summit in 2018³², indicating the embracement of the bank.

Today India has 7.6% of total voting power³³ and has been allocated the majority of the projects (45 approved ones and 56 in total (proposed, on hold and terminated)) with a total financing exceeding \$10 billion, making it the biggest borrower of the AIIB³⁴. The total borrowing amount is more than the next two countries – Indonesia and Turkey – combined³⁵. Figures below

[chinas-one-belt-one-road-initiative-but-doesnt-explicitly-say/](#). However, the author mistakenly attributes this to the AIIB Charter, which is AoA, and not an operational policy.

³⁰ CFR Editors, Zoe Jordan, and Sonali Deliwala. 2022. "Why Washington Should Care About India's Support for the AIIB." Council on Foreign Relations, May 24, 2022. Accessed May 14, 2024. <https://www.cfr.org/blog/why-washington-should-care-about-indias-support-aiib>.

³¹ "AIIB Leadership." n.d. Accessed May 14, 2024. <https://www.aiib.org/en/who-we-are/about-aiib/leadership/index.html>.

³² Hallerberg, Mark, Sahil Deo, Om Marathe, and Jayati Sharma. 2024. "Perception Matters: How Chinese Funding Impacts Beijing's Image in India." Orfonline.Org. May 14, 2024. Accessed May 15, 2024. <https://www.orfonline.org/research/perception-matters-how-chinese-funding-impacts-beijings-image-in-india>.

³³ Asian Infrastructure Investment Bank. Governance. n.d. "Members of the Bank." Members of the Bank. Accessed April 28, 2024. <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html>.

³⁴ Calculated by the author according to: "Project List - Project - AIIB." n.d. Accessed May 16, 2024.

https://www.aiib.org/en/projects/list/year/All/member/India/sector/All/financing_type/All/status/All.

³⁵ *ibid*

show general results of India’s participation in the AIIB. The pattern of participation mirrors that of the bank – the number of co-financed projects exceeded 50% in 2017 when the Bank only started its operation and in 2020-2021 during the COVID-19 pandemic. The peak of financing also happened in 2020-2021, when India needed more finance to set off the consequences of the pandemic. The majority of these projects target energy (power grid upgrading, renewable sources) and transport (roads and metro), as well as water management³⁶.



Figure 6. Indian participation in the AIIB with co-financed proportion

³⁶ ibid



Figure 7. Number of Indian projects in the AIIB

However, in order to deeper analyze the dynamics of the Indian participation in the AIIB, as well as possible returns for China, it is worth situating India’s membership in the AIIB in a wider Sino-Indian context.

2.2. Dynamics of Sino-Indian Relations and the AIIB Operations in India

This section looks at Sino-Indian relations since 2014 and analyzes why it is beneficial for India to engage with the AIIB.

Since Mody came to power in 2014, the bilateral Sino-Indian relations experienced an upswing, especially visible in the economic realm. The improvement of political relations is manifested in the number of bilateral visits since 2014.

<i>Name</i>	<i>Designation</i>	<i>Country</i>	<i>Visiting year</i>
Narasimha Rao	Prime Minister	India	1993
Atal Bihari Vajpayee	Prime Minister	India	2003
Wen Jiabao	Premier	China	2005
Hu Jintao	President	China	2006
Dr Manmohan Singh	Prime Minister	India	2008
Xi Jinping	President	China	2014
Narendra Modi	Prime Minister	India	2015
Pranab Mukherjee	President	India	2016
Narendra Modi	Prime Minister	India	2016 (twice)
Xi Jinping	President	China	2016
Narendra Modi	Prime Minister	India	2018
Xi Jinping	President	China	2019

Figure 8. Bilateral visits by State/Government heads (Choudhury 2023, 98)

The graph below shows that Chinese outward FDI to India also experienced a surge, especially in 2015 and in 2019 and stayed about \$200 million for the whole period, except 2022, when there was a drop. It is even more noticeable considering that up to 2010 total FDI inflow was about \$1 million (Choudhury 2023, 95). Concurrently, bilateral trade between 2010 and 2019 increased from \$58 billion to \$85 billion (Choudhury 2023). Former Indian Foreign Minister even advised looking closer at the possibility of joining the BRI (Kumar 2021, 230).

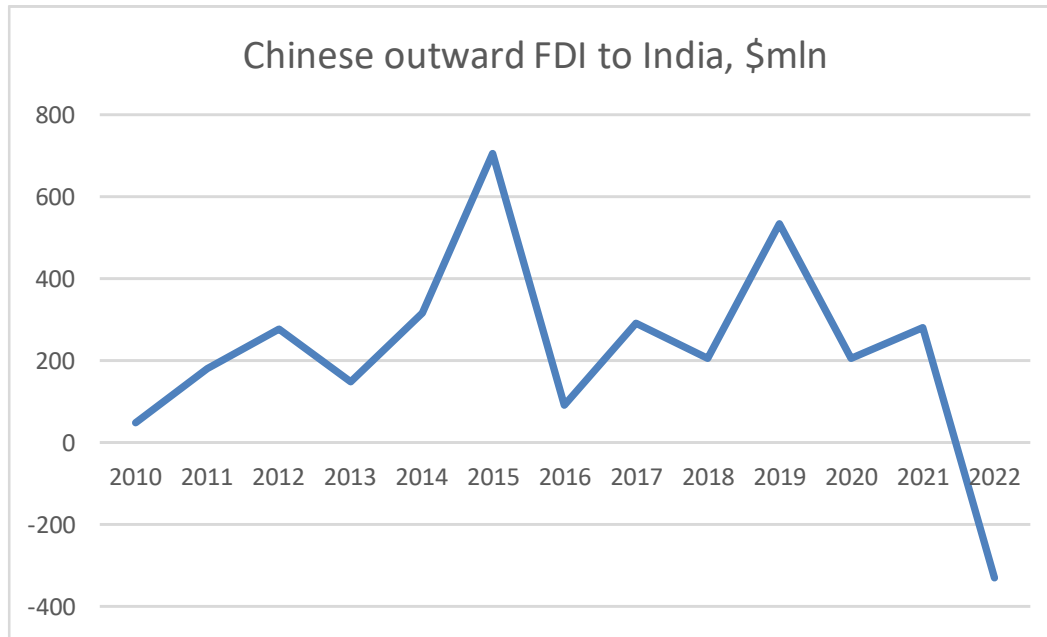


Figure 9. Chinese outward FDI to India, \$mln³⁷

However, much changed after the border clash of 2020 in the Galwan valley that strained the bilateral political and diplomatic relations, but also affected economic ties: India could not introduce any serious countermeasures in trade, as it relies on imports from China too much, so it targeted investments: Chinese investments were to be scrutinized even more (Choudhury 2023, 100). Besides, all investments coming from border neighbours were to receive clearance approval from the Indian government, which was explained by the desire to prevent possible takeovers of Indian companies during the pandemic (Choudhury 2023, 107). What is more, more than 200 Chinese applications were banned in strategic sectors (Choudhury 2023).

What puzzled many observers at the time was that while all these restrictive measures were being undertaken, India secured two loans from China-led AIIB. National Spokesperson of Congress Rawan Khara accused Modi of promising to sever financial ties with China, while receiving the loans from the AIIB in May and June, 2020, when the hot phase of the confrontation

³⁷ “商务部、国家统计局和国家外汇管理局联合发布《2022年度中国对外直接投资统计公报》。” The Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange jointly released the "2022 China Overseas Direct Investment Statistical Bulletin" 2022. Date of Access: 10.04.2024. <http://www.mofcom.gov.cn/article/tongjiziliao/dgz/202309/20230903443704.shtml>.

商务部、国家统计局和国家外汇管理局联合发布《2017年度中国对外直接投资统计公报》: The Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange jointly released the "2017 China Overseas Direct Investment Statistical Bulletin" 2022. Date of Access: 10.04.2024. <http://images.mofcom.gov.cn/hzs/201810/20181029160118046.pdf>.

continued³⁸. Besides, India borrowed heavily in 2020 and 2021, as seen in the figures above. Why did then India continue borrowing from the AIIB?

The main reason, in my opinion, is the Modi's policy of trying to separate economic and political relations if it is beneficial for India. For the time being India is unable to match China in military or economic capacity, so the most appropriate behaviour is to use Chinese economic potential for its own development. However, it is important to appease internal audience, so when doubts about the nature of the AIIB funds arise, Indian officials persist that they borrow money not from China, but from a multilateral development bank³⁹. Besides, after China India is also the second-biggest borrower of the New Development Bank (New Development Bank 2023, 2), which was established by the BRICS organization in 2015, headquartered in Shanghai and where India and China have equal shares. Here the two states also collaborate in development finance, which is also labeled multilateral.

Another reason is that AIIB projects bring benefits to India, so while there is no "China" tag on these loans, India may continue to borrow to cover its infrastructural needs. The number of the AIIB projects itself is explained by the fact that India had a lot of project drafts and suggestions ready for submission (Humphrey 2020, 9), so while Western finance comes in slowly and it is not enough and Chinese capital is politically toxic, the AIIB funds are economically beneficial. Besides, recent findings prove that AIIB projects turn out to be more successful than those of the Indian government, at least in the transportation system, promoting economic growth through enhancing regional connectivity, bringing more capital and raising productivity (J. Chen and Cai 2024), which allows India to learn from such projects. The India's government itself speaks highly of the AIIB funds: in 2020 they expressed their gratitude to the AIIB and the ADB for helping mitigate the effects of the COVID-19 pandemic⁴⁰.

I also believe that AIIB's looser environmental and social safeguards align well with Modi's infrastructural push without too many "limiting" conditions. It is claimed that while the World

³⁸ The Times of India. 2020. "PM Modi Took Two Loans from AIIB Where China Is Largest Stakeholder: Congress," September 16, 2020. Accessed May 14, 2024. <https://timesofindia.indiatimes.com/india/pm-modi-took-two-loans-from-aiib-where-china-is-largest-stakeholder-congress/articleshow/78149822.cms>.

³⁹ Iwanek, Krzysztof. 2021. "Amid Tensions with China, India Proceeding with AIIB-funded Projects." *The Diplomat*, June 14, 2021. Accessed May 15, 2024. <https://thediplomat.com/2021/06/amid-tensions-with-china-india-proceeding-with-aiib-funded-projects/>.

⁴⁰ Iwanek, Krzysztof. 2021. "Amid Tensions with China, India Proceeding with AIIB-funded Projects." *The Diplomat*, June 14, 2021. Accessed May 15, 2024. <https://thediplomat.com/2021/06/amid-tensions-with-china-india-proceeding-with-aiib-funded-projects/>.

Bank limits funding to unsustainable energy projects, the AIIB may provide much-needed funds to support Indian power supply, including coal-fired plants (Rana 2019, 284). Lack of sustainability and attention to civil society's concerns have already been pointed out in the AIIB's projects in India: some of them are poised to cause deforestation, bring damage to local flora and fauna, harm local workers and communities (Lutz Weischer 2019, 44), while others cause land alienation and the confiscation of local owners' lands (2019, 49). AIIB projects in India seem to follow a "business-as-usual" logic, rather than an alliance with the Paris agreement, where finance is rushed, locals' concerns are overlooked, and sustainability is in question, while at the same time coherent with the Indian government's objectives (2019, 50). Complaints about human rights abuses and environmental principles violations also surfaced in 2020 during the construction of Bangalore Metro line⁴¹. There are also rumours that India is not inclined to place such problems in the spotlight: certain "critical issues" regarding AIIB projects' personnel, governance and approval were pointed out by the Indian Finance Minister but further details were not disclosed⁴².

Overall, against the backdrop of a deterioration in bilateral Sino-Indian relations, the AIIB, being a multilateral initiative, helps India finance infrastructure and promote regional economic development without being labeled as a "Chinese" tool, which aligns well with the Indian government's priorities. Besides, the AIIB serves as a multilateral forum, accommodating Indian concerns. India can also learn from the AIIB projects, which are more efficient than those of the Indian government. This explains India's status as the largest AIIB's borrower, but which benefits, if any, does it bring to China? This will be explored in the next section.

2.3. Chinese Gains from Indian Participation in the AIIB

This section looks into the advantages for China resulting from the Indian's active participation in the AIIB.

⁴¹ Power, John. 2020. "China-led AIIB Failing on Human Rights, Environment in India and Bangladesh: Activists." South China Morning Post, August 26, 2020. Accessed May 16, 2024. <https://www.scmp.com/week-asia/politics/article/3098837/china-led-aiib-failing-human-rights-environment-india-and>.

⁴² Tribuneindia News Service. 2023. "Finance Minister Flags Problems Over AIIB-funded Border Projects," July 16, 2023. Accessed May 16, 2024. <https://www.tribuneindia.com/news/nation/finance-minister-flags-problems-over-aiib-funded-border-projects-526275>.

For China the AIIB presents an opportunity to conduct investment operations even when there are clashes along the border and a general worsening of bilateral relations. During the 2020 conflict, the AIIB President Jin Liqun admitted facing domestic pressure after the Bank's commitment to continue lending to India, but claimed that this was the "test" for the AIIB's multilateral character⁴³. While this supposedly should be true, it is also an evidence that the AIIB leadership does face pressure from China, even though managing to "resist" it. If China acted on its own, it would have stopped this financing channel due to the deterioration of bilateral relations in order to exert pressure on India. However, the Bank persisted and continued to lend to India, which was the initial design behind the AIIB: disregard bilateral conflicts and improve the image of Chinese development finance. It thus supports the argument that through the AIIB China manages to reach out to politically "distant" states, as while India restricted Chinese investment in this period, these regulations did not concern multilateral banks with Chinese capital, such as the AIIB, which can even increase funding during such crises, as can be seen from figures 1 and 2.

However, while AIIB projects in India generally bring positive economic results and are quite successful, they do not seem to alter people's attitude to Chinese financial assistance: a survey was conducted in September 2023 to find out the Indians' preferences towards who should fund development projects⁴⁴. It turned out that respondents favoured local government alone most, and the World Bank and the AIIB came second; however, when they learned that the AIIB is located in Beijing, it became the least favoured option. That proves that any relation to Chinese finance makes projects unpopular among the population, so it is important both for the Bank's officials and the Indian government wanting AIIB funds to separate the Bank's funds and Chinese finance.

Some authors pointed out that the AIIB projects can pave the way for Chinese companies that have expertise and experience in infrastructure construction, through which they can penetrate

⁴³ Wang, Orange. 2021. "China-backed AIIB Maintained Loans to India During Border Dispute in 'First Major Test', Says President." *South China Morning Post*, June 4, 2021. Accessed May 15, 2024. <https://www.scmp.com/economy/global-economy/article/3136109/china-backed-aiib-maintained-loans-india-during-border>.

⁴⁴ Hallerberg, Mark, Sahil Deo, Om Marathe, and Jayati Sharma. 2024. "Perception Matters: How Chinese Funding Impacts Beijing's Image in India." *Orfonline.Org*. May 14, 2024. Accessed May 15, 2024. <https://www.orfonline.org/research/perception-matters-how-chinese-funding-impacts-beijings-image-in-india>.

the Indian infrastructure market⁴⁵ and bring their own standards (Shaffer and Gao 2020, 15). However, a closer look at the procurement operations in the AIIB in the figure below reveals that, while this may be true for other states, 95% of contract value in India in 2016-2022 was awarded to domestic suppliers.

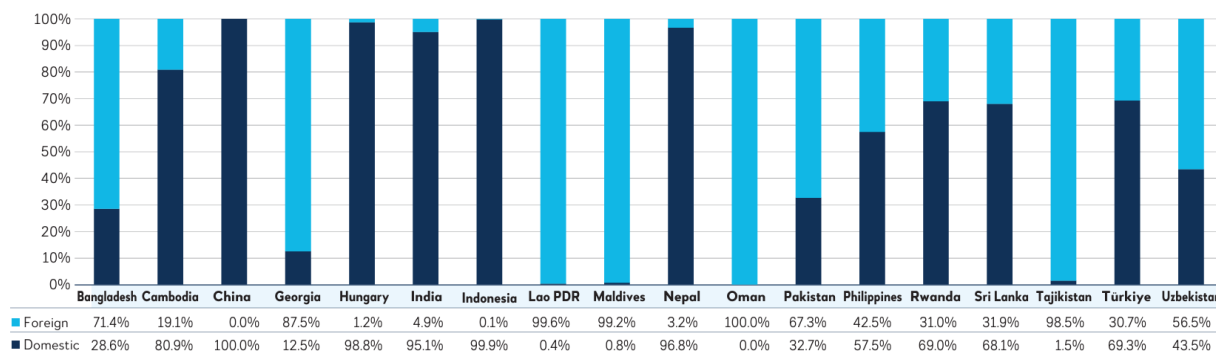


Figure 10. Percentage of Contract Value Awarded to Domestic Suppliers/Contractors/Consultants, 2016-2022 ('AIIB 2022 Annual Operational Procurement Report' 2023, 18)

At the same time, regarding only goods procurement, India did rely on some of the Chinese goods, but the volume is still quite small in absolute and relative terms and amounted to about \$85 mln over 2016-2022 ('AIIB 2022 Annual Operational Procurement Report' 2023, 13), which does not support an argument about Chinese interests being at stake here. At the same time, a “Chinese” way of financing could make its way into the Bank’s recommendations to India: in its 2022 report the Bank urged India to use SOEs to finance projects together with private companies to share experience, bring more funds and help India reach its climate goals⁴⁶.

One of the bigger benefits for China is that infrastructure projects in India, especially in border states in the Northeast and on the coast, help bring about better connectivity and facilitate the flow of Chinese goods, considering that China is India’s biggest trading partner. Regional authorities in the Northeast, such as in Assam, were also calling for increased Chinese finance to

⁴⁵ Iwanek, Krzysztof. 2019. “Fully Invested: India Remains the China-led AIIB’s Biggest Borrower.” *The Diplomat*, September 6, 2019. Accessed May 17, 2024. <https://thediplomat.com/2019/09/fully-invested-india-remains-the-china-led-aiibs-biggest-borrower/>.

⁴⁶ “AIIB AIF Report 2022 Country Write-Ups - India.” 2023. 2023. Accessed May 16, 2024. <https://www.aiib.org/en/news-events/asian-infrastructure-finance/2022/country/02-india.html>.

help develop trade ties and business opportunities⁴⁷. Analyzing AIIB project allocation in India⁴⁸, one may notice that the majority of 35 projects which are attributed to certain states (the rest are nation-wide) are located in the coastal states (Tamil Nadu (5), Maharashtra (4), Andhra Pradesh (3), Kerala (3)). Assam is also among the leaders (3 projects), and together Northeastern states take up about 20% of the state-defined projects. This brings more evidence to the claim that the AIIB projects indeed may help link China with its more politically “distant” neighbours through improving trade routes and ports in the border or coastal states through which Chinese goods move.

To sum up, India is the largest borrower from the AIIB, which brings benefits both for India and for China. India’s voting power is commensurate with its economic weight in the world, and its decision-making and negotiating capacity at the Bank enhance its world status and project an image of a more powerful India. At the same time AIIB’s finance is disentangled from the “China” label and can help India with its infrastructural and regional development, bringing economic growth and better connectivity. This aligns well with the government’s priorities, while weakened social and environmental concerns do not seem to occupy it too much. India continued borrowing heavily from the AIIB even during the bilateral clashes with China of 2020, so defending the Bank’s multilateral status is beneficial for both India and China. As for the advantages for China, it managed to attain its more “distant” partner, while also improving the latter’s road and energy infrastructure, thus improving trade routes and possibly promoting bilateral trade (which is seriously skewed in favour of China now). The AIIB also integrated many “Chinese” features into its project implementation in India, which could further promote such a way of development worldwide.

The next chapter will analyze the dynamics of the Philippines’ participation in the AIIB and how this may benefit China.

⁴⁷ Das, Udayan. 2019. “Why The Road for China’s BRI Is Steeper in India’s Northeast.” *South Asian Voices*. May 24, 2019. Accessed May 18, 2024. <https://southasianvoices.org/why-the-road-for-chinas-bri-is-steeper-in-indias-northeast/>.

⁴⁸ Calculated by the author according to: “Project List - Project - AIIB.” n.d. Accessed May 11, 2024. <https://www.aiib.org/en/projects/list/index.html>.

Chapter 3. AIIB in the Context of Bilateral Chinese-Philippine Relations

This chapter will analyze the Philippines' participation in the AIIB in the context of wider Chinese-Philippine relations to consider whether the Bank helps China reach out to this more politically "distant" state. First the process of the Philippines' inclusion in the Bank will be examined, then I will place the AIIB in the context of bilateral relations over 10 years, and then possible benefits for China will be outlined. This case aims at analyzing whether the AIIB acts similarly as a counterweight to the deterioration of bilateral political relations, as it was in India. Besides, the Philippine case differs from India, as here there is an evident period of rapprochement with China, and the AIIB remains largely inactive during it.

3.1. *Philippines' Bumpy Road to AIIB Membership*

This section looks at the process, conditions and a wider political-economic context of the Philippines' joining the AIIB.

The Philippines has for a long time been a traditional ally of the US, which prevented it from a closer economic and political engagement with China. Another crucial factor of antagonism is the territorial dispute between the two countries over the South China Sea (Misalucha-Willoughby and Tolentino 2023, 28), which China claims as its internal sea, while several countries including the Philippines, Indonesia, Vietnam, Brunei, Malaysia (and Taiwan) claim certain islands as part of their territory. In the 2000s bilateral Chinese-Philippine ties started to improve due to the enhanced economic power of China (Aquino et al. 2023, 254), but then the situation changed under the new Philippines' president Benigno Aquino III (2010-2016), as in the Philippines foreign policy and, consequently, foreign economic relations are largely dependent on the incumbent president.

During the first years of Aquino's presidency it seemed as though the relations were set to improve further: he paid his first state visit to China, did not send the delegation to the Nobel Peace Prize ceremony boycotted by China and deported some Taiwanese nationals to mainland China (Palanca and Ong 2019, 101). However, soon due to a series of events involving killing of Hong

Kong nationals in Manila and executing Philippine drug dealers in China, the relations started to deteriorate (Palanca and Ong 2019). Yet, the major blow to the relations was dealt by the South China Sea incident on the Scarborough Shoal in 2012 during which China seized the disputed islands (Palanca and Ong 2019). This led to a loss of trust from both sides and a cooling of relations. In 2013 the Philippines filed a lawsuit to the UN Permanent Court of Arbitration in the Hague⁴⁹ and turned to its traditional ally – the US – to strengthen its defense capabilities and in 2014 it signed the Enhanced Defense Cooperation Agreement allowing the rotation of the American troops on the Philippine territory (Misalucha-Willoughby and Tolentino 2023, 32).

This explains why the Philippines refrained from participating in the BRI in this period, and China did not cherish any illusions either: according to the early maps of the BRI routes, they seem to have sidelined the Philippines (Palanca and Ong 2019, 112). Besides, some Chinese-backed bilateral projects encountered controversies including “corruption and irregularities” and were cancelled, which also harmed the image of China as an investment partner⁵⁰, especially after it demanded to be repaid for the released loan, receiving accusations of being politically motivated (Palanca and Ong 2019, 104). However, as in the case with India, the Philippines did agree to take part in the Chinese-led AIIB under Aquino. What explains such inconsistency?

This is not to say that the Philippines did not have its concerns about joining the AIIB. In October 2014 the Philippines signed a preliminary agreement to become a founding member of the AIIB, which, as the authorities emphasized, was “non-binding” and aimed at exploring the possible prospects⁵¹. Then the country hesitated for a year and its delegation did not sign the Bank’s Charter in June 2015, as it was still weighing its options⁵². The Philippines’ Department of Foreign Affairs and the Department of Finance (DOF) were tasked with analyzing the relevance of joining the AIIB, and finally upon the recommendation from the DOF the Philippines was the

⁴⁹ Westcott, Ben. 2016. “Philippines Vs China: Why the South China Sea Ruling May Change Asia.” CNN. July 12, 2016. Accessed May 18, 2024. <https://edition.cnn.com/2016/07/04/asia/south-china-sea-un-case-explainer/index.html>.

⁵⁰ Wong, Andrea Chloe A. 2015. “What Does the Philippines Think About China’s AIIB?” The Diplomat, May 5, 2015. Accessed May 18, 2024. <https://thediplomat.com/2015/05/what-does-the-philippines-think-about-chinas-aiib/>.

⁵¹ Tiezzi, Shannon. 2015. “Philippines to (Finally) Join China’s Asian Infrastructure Investment Bank.” The Diplomat, December 31, 2015. <https://thediplomat.com/2015/12/philippines-to-finally-join-chinas-asian-infrastructure-investment-bank/>.

⁵² *ibid*

last to join the AIIB as a founding member in December 2015⁵³. The Secretary of Finance cited infrastructural needs, procurement opportunities, good governance and multilateralism as the reasons to join the Bank⁵⁴.

So, similar to the situation in India, when the Bank was presented as a multilateral institution and not a Chinese tool, the government opted for joining the China-led institution, even at the time when the bilateral political relations were at their lowest level. The AIIB presented an opportunity to fund the Philippine infrastructure projects and tap into Chinese finance without having a toxic association with unilateral Chinese development loans. Besides, the Philippines got a higher voting power than in other MDBs: 1.1% (1.05 now⁵⁵) compared to 0.45% in the World Bank and 0.43 at the IMF⁵⁶.

However, until recently the AIIB was not an active provider of finance to the Philippines, which coincided with the presidency of Rodrigo Duterte (2016-2022) who pursued a pro-Chinese foreign policy course and even joined the BRI, which gives more ground to the claim that the AIIB is more active when the other sources of funding become irrelevant.

3.2. AIIB (In)Activity in the Philippines under Duterte

This chapter will look at the Philippine-Chinese relations in development finance under Duterte and outline the reasons why the AIIB was not functioning very actively in the Philippines.

When Duterte became the Philippines' president, he declared that he would pursue an "independent foreign policy", which in practice meant turning away from the US and a closer alignment with China (Misalucha-Willoughby and Tolentino 2023, 28). Among the Southeast Asian states, the Philippines had one of the lowest levels of cooperation with China (Palanca and

⁵³ Philstar.Com. 2016. "How Philippines Stands to Gain From AIIB Membership," February 26, 2016. Accessed May 18, 2024. <https://qa.philstar.com/business/business-as-usual/2016/01/03/1538915/how-philippines-stands-gain-aiib-membership>.

⁵⁴ "Philippines Joins Asian Infrastructure Investment Bank." 2015. Department of Finance. December 30, 2015. Accessed May 18, 2024. <https://www.dof.gov.ph/philippines-joins-asian-infrastructure-investment-bank/>.

⁵⁵ "Members of the Bank." AIIB. Accessed May 18, 2024. <https://www.aiib.org/en/about-aiib/governance/members-of-bank/>.

⁵⁶ Philstar.Com. 2016. "How Philippines Stands to Gain From AIIB Membership," February 26, 2016. Accessed May 18, 2024. <https://qa.philstar.com/business/business-as-usual/2016/01/03/1538915/how-philippines-stands-gain-aiib-membership>.

Ong 2019, 99) and also one of the poorest level of infrastructure development (Chao 2021, 53), and Duterte aimed to change that.

During his first year of presidency the UN Permanent Court of Arbitration ruled out against China, and Duterte used this as a bargaining tool to attract Chinese investments (Chao 2021, 52). His first state visit to China in October 2016 brought back home investment deals worth \$24 billion and 13 bilateral agreements (Misalucha-Willoughby and Tolentino 2023, 28). Immediately after the visit it was allowed for the Philippine fishermen to go near the Scarborough Shoal, which was isolated by China since the incident (Palanca and Ong 2019, 103). To address the infrastructure problem, in 2017 Duterte launched his flagship “Build, Build, Build” (BBB) programme, for which as he said, he needed Chinese finance (Sianipar 2023, 80). The number of bilateral state visits also increased: Duterte also visited China to take part in the BRI forums in 2017 and 2019, Chinese Premier visited the Philippines in 2017, and during Xi Jinping’s state visit to Philippines in November 2018 the parties signed a Memorandum of understanding signifying that the Philippines was officially joining the BRI (Chao 2021, 53–54), which meant a closer economic rapprochement with China.

As seen from the figures below, this time saw an increase in bilateral trade and investment flows. China was and is the Philippines biggest trading partner and second large export market after the US. The amount of investment from China was also on the rise.

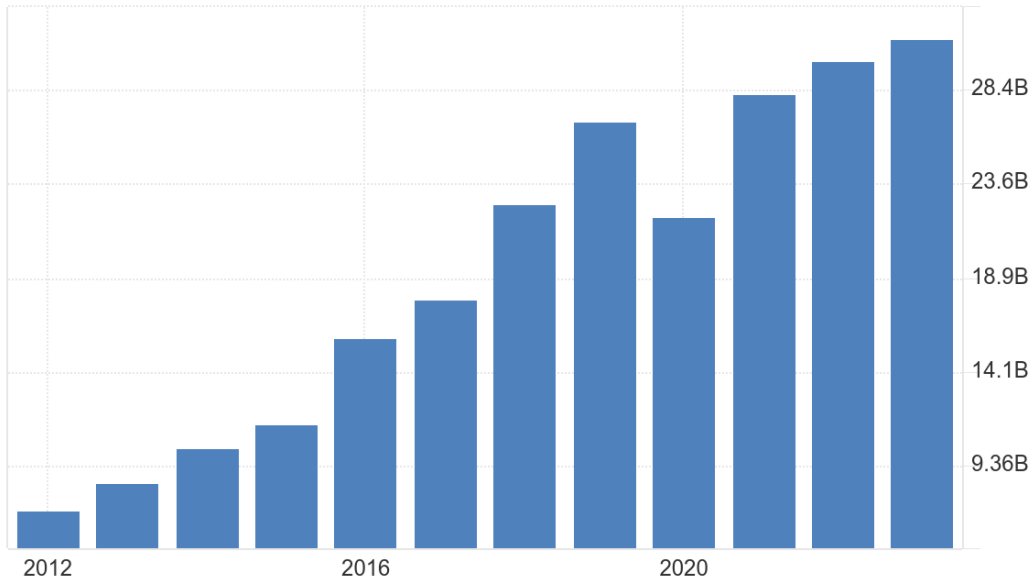


Figure 11. Philippines Imports from China in US dollars: 2012- 2023⁵⁷

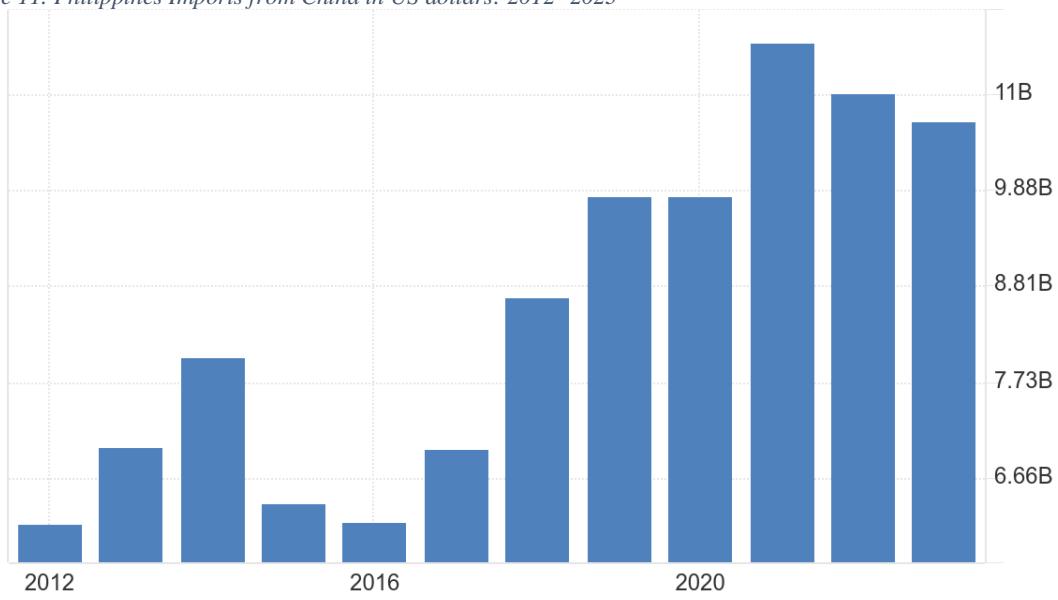


Figure 12. Philippines Exports to China in US dollars: 2012- 2023⁵⁸

⁵⁷ “Philippines Imports from China - 2024 Data 2025 Forecast 1996-2023 Historical.” n.d. TRADING ECONOMICS. Accessed May 19, 2024. <https://tradingeconomics.com/philippines/imports/china>.

⁵⁸ “Philippines Exports to China - 2024 Data 2025 Forecast 1996-2023 Historical.” n.d. TRADING ECONOMICS. Accessed May 19, 2024. <https://tradingeconomics.com/philippines/exports/china>.

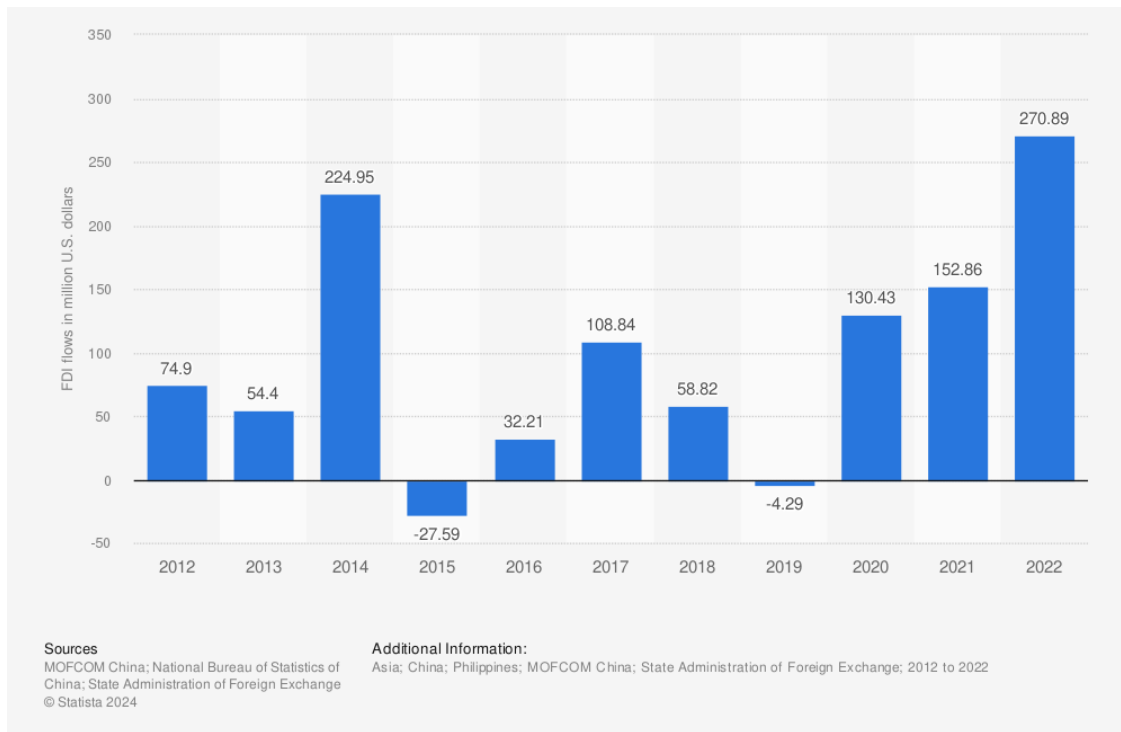


Figure 13. Annual flow of foreign direct investments from China to the Philippines between 2012 and 2022⁵⁹

By the end of Duterte’s rule the Philippines became one of the most active BRI participants: in 2022 it received the highest construction engagement (\$3.3 billion) and displayed one of the highest growths in BRI engagements (Misalucha-Willoughby and Tolentino 2023, 27).

It seems that all these investments and engagements crowded out possible commitments from the AIIB. Even though it aimed at enlarging its investment portfolio through the BBB programme⁶⁰, a look at its approved and considered projects proves otherwise.

⁵⁹ National Bureau of Statistics of China. "Annual flow of foreign direct investments from China to the Philippines between 2012 and 2022 (in million U.S. dollars)." Chart. September 29, 2023. Statista. Accessed May 20, 2024. <https://www.statista.com/statistics/720386/china-outward-fdi-flows-to-the-philippines/>

⁶⁰ Rada, Julito G. 2018. "AIIB Wants to Fund More Philippine Projects - Manila Standard." Manila Standard. June 28, 2018. Accessed May 20, 2024. <https://manilastandard.net/?p=269196>.

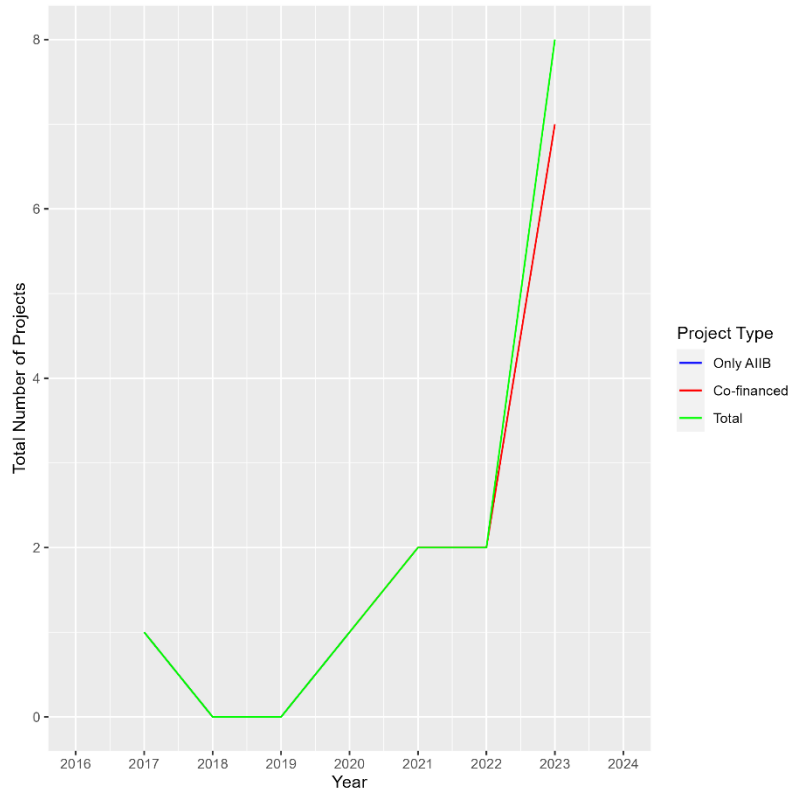


Figure 14. Total number of AIIB projects in Philippines⁶¹

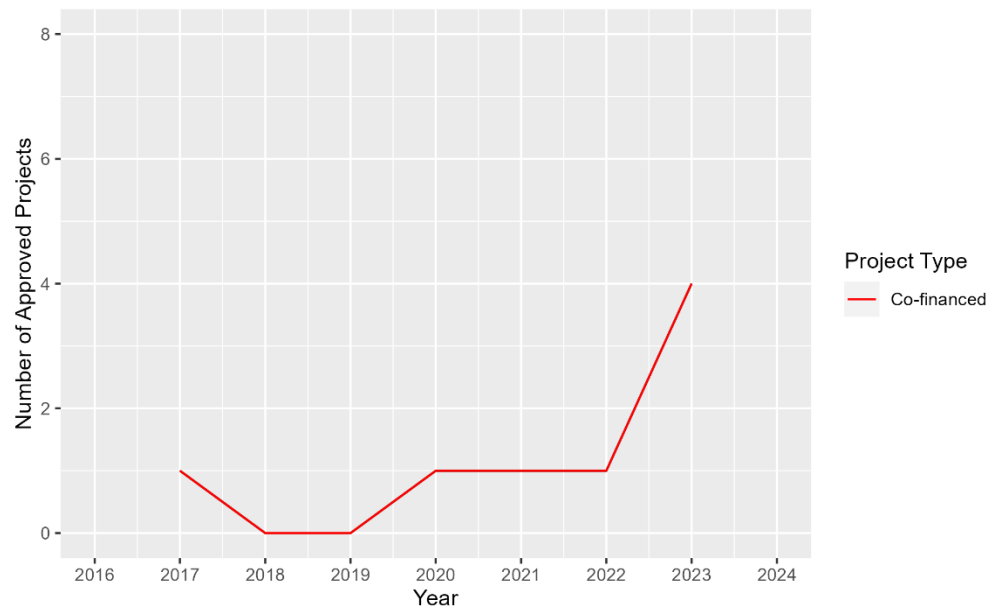


Figure 15. Number of approved AIIB projects in the Philippines⁶²

⁶¹ Calculated by the author according to: “Project List - Project - AIIB.” n.d. Accessed May 12, 2024. https://www.aiib.org/en/projects/list/year/All/member/India/sector/All/financing_type/All/status/All.

⁶² *ibid*

According to the figures above, there were no projects at all in 2018 and 2019, 1 project in 2017⁶³ and 2020, 2 proposed ones in 2021 and 2022 with one approved each year (the 2022 project was approved in 2023), and many more proposed and approved projects in 2023. Up until 2023 the AIIB did not seem to play a noticeable role in the Philippines' development finance, which, in my opinion, was caused by the positive and active bilateral character of the Philippine-Chinese engagement, so there was no need to use multilateral arrangements.

The reason for such an increase in the AIIB funding in 2023, as well as for almost all the projects being co-financed with other MDBs will be discussed in the next section.

3.3. Results of Duterte's Pro-Chinese Policy and Activation of AIIB

This section will analyze what the results of Philippine-Chinese rapprochement are and why the AIIB increased its financing to the Philippines in 2023.

By the end of Duterte's term it was clear that the hopes of mobilizing Chinese finance did not lead to the desired results. First, most of the direct Chinese investments went to the gambling activities, with Chinese nationals acquiring hotels and resorts and receiving all the profits (Misalucha-Willoughby and Tolentino 2023, 29). This benefitted the economy but brought about high social costs and public disapproval, affecting negatively the image of Chinese FDIs (Misalucha-Willoughby and Tolentino 2023). Second, the BRI projects were entangled in corruption and were also marred by irregularities. For instance, the Kaliwa Dam project was allowed to proceed without the government's permission ((Misalucha-Willoughby and Tolentino 2023, 30) and is halted as of now due to the threats of the displacement of local people⁶⁴. Among other issues are possible debt traps, environmental concerns, a lack of engagement with affected people and diminished spillover effects⁶⁵. Third, only a portion of what had been promised

⁶³ Although many sources cite two projects (Palanca and Ong 2019, 113) (Misalucha-Willoughby and Tolentino 2023, 21), a transportation project with the ADB is mentioned neither in the Project list on the AIIB website, nor in the media

⁶⁴ Cepeda, Mara. 2024. "A New Dam Threatens This Filipino Tribe. It's Just One of the Country's Stalled China-funded Projects." *The Straits Times*. March 3, 2024. Accessed May 22, 2024. <https://www.straitstimes.com/multimedia/graphics/2024/03/chinese-investment-philippines/index.html?shell>.

⁶⁵ Rabena, Aaron Jed. 2023. "The Belt and Road Initiative and the Philippines' Post-Duterte China Challenge | FULCRUM." *FULCRUM*. April 20, 2023. Accessed May 22, 2024. <https://fulcrum.sg/the-belt-and-road-initiative-and-the-philippines-post-duterte-china-challenge/>.

materialized: overall, two projects had been completed by the end of 2022 (Misalucha-Willoughby and Tolentino 2023, 21). Besides, despite the intensification and improvement of bilateral political and economic ties and a positive discourse about China from Duterte and his allies, the public perception of Chinese funding stayed very negative. According to some surveys (Palanca and Ong 2019, 103) (Chao 2021, 50), China is the lowest-rated countries except North Korea, and there is little trust in the BRI which is seen as an instrument of projecting Chinese power and influence over the Philippines.

Accordingly, the new Philippine president Ferdinand Marcos Jr. who was elected in 2022 took a pro-American course and put Chinese-funded projects under more scrutiny⁶⁶. It also coincided with the increased tensions in the South China Sea in this period, after which in October 2023 the Philippines announced that it would exit the BRI, although the Philippine officials claimed it was not because of it⁶⁷. Among the reasons listed were delays in financing and implementation, less favourable conditions than from Japan, and a general geopolitical background⁶⁸. As a result, several projects worth \$4.9 billion were cancelled, and some were under “reconsideration”, while the Philippines was trying to secure investment from its traditional partners⁶⁹.

However, the number and the volume of AIIB projects to the Philippines increased in 2023, reaching 8 projects in total with the total proposed funding of 2.8 billion⁷⁰, making it the fifth most active AIIB borrower without China. A recently (May 2024) approved project alone envisions \$1.14 billion funding from the AIIB in several tranches⁷¹. While Chinese-related projects were being curtailed and an exit from the BRI was announced, the AIIB increased its involvement due for the most part to its multilateral character (Misalucha-Willoughby and Tolentino 2023, 23). Besides, AIIB projects generally received positive feedback in the Philippines: Philippine

⁶⁶ Walker, Tommy. 2023. “Philippines Drops China’s Belt and Road as Tensions Flare.” *Dw.Com*, November 8, 2023. Accessed May 22, 2024. <https://www.dw.com/en/philippines-drops-chinas-belt-and-road-as-tensions-flare/a-67344929>.

⁶⁷ *ibid*

⁶⁸ Heydarian, Richard Javad. 2023. “Why The Philippines Is Exiting the Belt and Road.” *Asia Times*, November 9, 2023. Accessed May 22, 2024. <https://asiatimes.com/2023/11/why-the-philippines-is-exiting-the-belt-and-road/>.

⁶⁹ *ibid*

⁷⁰ Calculated by the author according to: “Project List - Project - AIIB.” n.d. Accessed May 12, 2024. https://www.aiib.org/en/projects/list/year/All/member/India/sector/All/financing_type/All/status/All.

⁷¹ “AIIB Approves Financing for Bataan-Cavite Interlink Bridge Project in the Philippines - News - AIIB.” 2024. May 22, 2024. Accessed May 23, 2024. <https://www.aiib.org/en/news-events/news/2024/AIIB-Approves-Financing-for-Bataan-Cavite-Interlink-Bridge-Project-in-the-Philippines.html>.

Secretary of Finance in his speech at the BOD roundtable admitted the “responsiveness” of the Bank to the members’ needs, praised its efforts in combatting COVID-19 and financing post-pandemic recovery and highlighted its efforts in coordinating co-financing with peer MDBs⁷². As can be seen from the graphs above, the majority of AIIB projects in the Philippines are co-financed, which can be explained by a considerable political distance between China and the Philippines, which does not allow the AIIB to implement its projects alone, as is the case with China, where a vast majority of projects (26) are funded by the AIIB alone and only 2 are co-financed⁷³.

Therefore, even though many authors investigating China-Philippine relations do not differentiate between the AIIB and other Chinese initiatives in the country (Palanca and Ong 2019, 94) (Sianipar 2023, 78) or stay ambiguous on this matter⁷⁴, they do not explain the dynamics of why there was an increase in the AIIB projects in the Philippines at the time when the country decided to leave the BRI. In my opinion, while there of course are other reasons for an increased funding, such as the availability of projects in the Philippines, the result of consultations with the ADB, etc., this still proves that the AIIB managed to distant itself away from Chinese finance and present its multilateral character, causing less suspicion from countries opposed to Chinese development finance.

All in all, this presents further evidence to the argument that through the AIIB, where China wields substantial influence, it manages to reach out to more “distant” states, as seen with the Philippines case. During the analyzed periods, three presidents held completely different views on Chinese development finance, however, all of them upheld participation in the AIIB, which, I argue, served as a Chinese “back-up” option in case everything goes wrong with bilateral projects, as happened during the Marcos’s presidency.

⁷² Lo, Katrina. 2023. “2023 Asian Infrastructure Investment Bank Annual Meeting Governors’ Business Roundtable - Department of Finance.” Department of Finance. September 26, 2023. Accessed May 24, 2024. The original website (<https://www.dof.gov.ph/2023-asian-infrastructure-investment-bank-annual-meeting-governors-business-roundtable/>) could not be accessed as of May 24, but a cached version could be found: <https://yandexwebcache.net/yandbtm?fmode=inject&tm=1716558235&tld=ru&lang=en&la=1697035776&text=http%3A//www.dof.gov.ph/2023-asian-infrastructure-investment-bank-annual-meeting-governors-business-roundtable/&url=https%3A//www.dof.gov.ph/2023-asian-infrastructure-investment-bank-annual-meeting-governors-business-roundtable/&110n=ru&mime=html&sign=7980a0e3be6ef83badd9dda1cca48ba4&keyno=0>.

⁷³ Calculated by the author according to: “Project List - Project - AIIB.” n.d. Accessed May 12, 2024. https://www.aiib.org/en/projects/list/year/All/member/India/sector/All/financing_type/All/status/All.

⁷⁴ Charmaine Misalucha-Willoughby and Elaine Tolentino claim that the AIIB is a funding source of the BRI (Misalucha-Willoughby and Tolentino 2023, 21), but then they admit these are distinct institutions, and the AIIB can be used to fund the BRI (Misalucha-Willoughby and Tolentino 2023, 23)

The analysis of the AIIB dynamics in the Philippines reveals that when a country experiences an improvement in bilateral political and economic relations with China, the AIIB becomes not so relevant, and the number of projects is rather low, but when other channels of financing get suspended, AIIB can get activated and intensify its financing, even though on a smaller scale than previously. Thus, I believe, China gets a chance to continue its financial engagement with another country when it can no more use more direct tools. Regarding the benefits for China, they are the direction of Chinese financial flows to a more “distant” country, an enhanced credibility of the AIIB as a multilateral institution and establishing connectivity in a country for which China is the biggest trading partner. However, the AIIB financing volumes are too small to considerably alter bilateral economic relations, and it remains to be seen whether the AIIB will continue its number and volume of projects to be able to compete with the ADB, which is the leading MDB in the Philippines with \$4.4 billion of approved financing as of 2023 (Asian Development Bank 2024, 1) in order to change the Philippines’ public perception of Chinese-related finance.

Conclusion

The paper considered the consequences of AIIB activity for China in politically more “distant” states such as India and the Philippines.

The first chapter was devoted to analyzing how the AIIB is related to Chinese development finance and whether China can direct the AIIB activity. Initially China envisaged a greater role for itself in a new multilateral Bank and most probably planned to use it to fund BRI projects. However, it also wanted to increase the Bank’s credibility, so it agreed to some of the Western powers’ demands and diminished its voting power in the Bank. Moreover, the new Bank also distanced itself from the BRI to underline its independent character from Chinese development finance.

At the same time, it does not mean that China did not leave any levers left in the Bank to govern its performance. Besides focusing on infrastructure and thus promoting regional connectivity in Asia, benefitting Chinese trade flows, among specific influence mechanisms are a still considerable voting power enabling China to veto most important decisions, the Bank’s headquarters in Beijing and the non-resident BOD, which greatly increased the supervision and the capacity of the Bank’s management consisting mostly of the Chinese and headed by the President of Chinese nationality. What is more, a detailed analysis of the documents reveals that the environmental and social safeguards, oversight and information disclosure mechanisms are only a lip service to the Western standards, while they are lacking in practical essence and applicability. When compared with other MDBs, the AIIB is quicker in approving projects, has less stringent environmental concerns and does not impose conditionality, which are also traits of Chinese development finance and may be more appealing to developing countries.

Chapter 2 looked at the AIIB activity in India, which is the Bank’s largest borrower. India does not participate in the BRI due to geopolitical and economic concerns, but needs funding for infrastructure development and regards the AIIB as a multilateral institution that is not as toxic as Chinese finance. The AIIB managed to alleviate some of India’s concerns about projects in disputed territories and provided India with a second-largest voting power, boosting its international status claims. Even in 2020 when there was a major clash on the Sino-Indian border, the AIIB continued financing to India and even increased it, which the Indian government explained by a multilateral character of the Bank. Thus, China managed to develop regional

connectivity with its largest neighbour and diffuse its finance into a “distant” country with many investment opportunities.

As for the Philippines, discussed in Chapter 3, the AIIB there has so far exhibited no controversies which are abound for Chinese investments and BRI projects and has sustained through changes in the Philippine administrations and foreign policy orientations. The ongoing territorial dispute in the South China Sea did not prevent the Philippines in 2015. It displayed a kind of “remedial economic multilateralism” through being rather inactive when there were many BRI projects in 2016-2022 and intensifying its lending when the country decided to leave the BRI in 2023. Due to the ADB’s strong positions in the country, as well as the Philippines’ suspicion towards China, almost all the projects are co-financed. However, the AIIB itself received praise from the government, enabling China to continue its engagement with this “distant” country through this multilateral China-led institution.

Overall, the findings support the claims about the ability of China to direct the activity of the AIIB and support the hypotheses about a “dirty work” and a “remedial economic multilateralism” of the AIIB, at least with regards to these obviously politically “distant” states wary of the BRI and Chinese development finance in general. The autonomy, delegated by China to the AIIB may explain why the AIIB remains present in politically “distant” countries with which China has border issues and territorial disputes such as India and the Philippines, while other channels of Chinese development finance get curtailed. Through this the Bank can remain multilateral and generate benefits for China in the long run, bringing a portion of Chinese development finance into such a “distant” state.

However, the AIIB is still a very young institution with a small total number of projects compared to the World Bank or the ADB, and more research is needed to be able to consider these claims more seriously. Another limitation of the research is that only two countries were chosen, and the dynamics of AIIB financing should also be considered elsewhere. At the same time, probably due to financing limitations, the AIIB does not seem to be able to improve China’s image in “distant” states and works well only when distancing away from China, which may prevent it from using this institution to include other states in its sphere of influence.

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Appendices

Appendix 1. Analysis of The Chinese Outward FDI

For this project I have collected the data from the Chinese Ministry of Commerce⁷⁵, the AIIB official website⁷⁷, the OECD official website⁷⁸. The data had to be transformed from a pdf format to an Excel spreadsheet, it contained data from 2010 to 2022 on 56 countries. Not all numbers were transformed automatically, so the author would be glad if any inconsistencies could be found and pointed out to him.

According to the findings, the mean value of outward Chinese FDI for AIIB founding members which are also in the OECD, has increased between the periods of 2010-2013 and 2016-2020 (p-value of the t-test is 0.04, and Wilcoxon's test p-value is 0.05), while no such change has been found among non-OECD members. The corresponding R-script and databases can be provided upon request.

⁷⁵ “商务部、国家统计局和国家外汇管理局联合发布《2022年度中国对外直接投资统计公报》。” The Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange jointly released the "2022 China Overseas Direct Investment Statistical Bulletin"2022. Date of Access: 10.04.2024. <http://www.mofcom.gov.cn/article/tongjiziliao/dgz/202309/20230903443704.shtml>.

⁷⁶ 商务部、国家统计局和国家外汇管理局联合发布《2017年度中国对外直接投资统计公报》：The Ministry of Commerce, the National Bureau of Statistics and the State Administration of Foreign Exchange jointly released the "2017 China Overseas Direct Investment Statistical Bulletin"2022. Date of Access: 10.04.2024. <http://images.mofcom.gov.cn/hzs/201810/20181029160118046.pdf>

⁷⁷ “Membership Status - AIIB.” Date of Access: 10.04.2024. <https://www.aiib.org/en/about-aiib/who-we-are/membership-status/>.

⁷⁸ “List of OECD Member countries - Ratification of the Convention on the OECD”. Date of Access: 10.04.2024. <https://www.oecd.org/about/document/ratification-oecd-convention.htm>