

THE ASIAN INFRASTRUCTURE INVESTMENT BANK: CONSIDERATIONS FOR THE PHILIPPINES

by Andrea Chloe A. Wong

In October 2014, the Asian Infrastructure Investment Bank (AIIB) was formally launched in Beijing. The Philippines, along with 20 other countries, signed the Memorandum of Understanding on the establishment of the AIIB as founding members. The bank's main thrust is to provide funds for infrastructure development that will stimulate the economic growth in the Asia Pacific.

The AIIB is projected to help fund development projects in the region. This is regarded as a significant opportunity for developing countries to improve their infrastructure through the AIIB. According to the Asian Development Bank (ADB), the infrastructure needs in the region is projected at USD 750 billion in investments annually until 2020. The ADB's annual lending approval of an estimated USD 13 billion is not enough to address the region's infrastructure deficit.

Despite the potential benefits of the AIIB, there are suspicions surrounding its establishment—largely because it is an initiative of China. This initiative evidently grants China a more prominent role in the region commensurate with its growing economic and political clout. At present, the bank is still considered small. The majority of its initial capital base of USD 50 billion and its authorized capital of up to USD 100 billion comes from the Chinese government. But if the AIIB expands in the long term, China will increase its clout in regional financing and may have influence over what gets built and which countries will get priority. This anticipated power play makes the US, Japan, and South Korea even more cautious of a China-led AIIB. However, it remains to be seen how the country will control the institution and to what extent its leadership will impact the region.

Another concern regarding the AIIB is its ambiguity over the kind of lending policies, transparency standards, and governance principles it will adopt. Critics are also in doubt whether the AIIB will meet the environmental safeguards and social standards that the ADB and World Bank espouse. To deflect such skepticism, China's President Xi Jinping assured the international community that the AIIB will follow multilateral rules and procedures and will adhere to "good practices" of existing international lending institutions. Such assurance may still be suspect given China's lending history and investment practices in some developing countries, particularly in Africa. Since the AIIB has been recently established, there is still uncertainty on what kind of norms and procedures China will promote. But in the long term, these issues will be critical in determining the organizational effectiveness and developmental impact of the AIIB in the region.

What is evident and indisputable, however, is that the AIIB aims to address China's own economic and strategic goals. The Chinese government recognizes the importance of having better infrastructure in its neighborhood to advance Chinese business interests in those countries. Aside from economic gains, China hopes to earn political amity points from developing countries, particularly in Southeast Asia. However, an AIIB that is not fully controlled by China may gain more regional support, as Chinese direct investments in neighboring countries raise more anxieties than goodwill.

This is especially true for the Philippines after it encountered controversies surrounding the infrastructure projects that were financed by China. The North Rail Project and the National Broadband Network were some of the high-profile Chinese-funded projects that were eventually cancelled due to allegations of corruption and irregularities. These projects produced national embarrassment for the Philippines and painted a negative image for China.

These multi-billion dollar ventures stirred relations between the two countries, and happened at a time when the Philippines urgently needed funding to finance its infrastructure projects. The Chinese government provides low interest rates and flexible loan terms, which are considered more favorable because of its adherence to the principle of non-interference in the recipient country's affairs and sovereign integrity. Meanwhile, China likewise stands to profit from this financial undertaking, with stipulations in

business transactions that will ultimately benefit its industries. Despite the potential benefits for both countries, such conditions led to impropriety and non-transparency on Chinese-funded projects in the Philippines.

The establishment of a China-led AIIB raised fears that it might resemble such bilateral investment deals. Chinese state banks provide funding for the infrastructure development of the recipient country, while its state-owned corporations implement and build the projects. In the case of the Philippines' North Rail project, China agreed to provide a concessional loan worth USD 503 million to be financed by the Export-Import Bank of China. Meanwhile, the China National Machinery and Equipment Corporation and the China National Technical Import and Export Corporation were automatically designated as the project's contractors. Such arrangement reinforces criticisms against Chinese loans and investments as basically self-serving since a significant portion of these funds eventually go back to China through its own corporations.

Despite these concerns, the Philippines has signed up with the AIIB to finance its needed infrastructure projects such as dams, railways, highways, and electricity grids. Its decision to be one of the bank's founding members demonstrates the country's high priority for its economic development regardless of previous controversies in investment deals and current security issues with China. To fully maximize the potential benefits of the AIIB, the Philippine government must continue with its institutional reforms to promote transparency and efficiency in the management and disbursements of foreign investments and loans. Moreover, it is expected to properly operationalize its Public Private Partnership program that encourages qualified companies to participate in the planning and implementation of development projects in the country.

While the much-needed regional funding provided by the AIIB reflects its value, there are some uncertainties over its potential developmental impact in the long term. China will have to prove that the AIIB is not merely a reflection of its government practice of investment and lending, which offers "cheaper rates, faster approval, and fewer questions." It needs to demonstrate that the bank will adhere to international standards set by multilateral lending institutions to gain credibility and minimize suspicions from other countries. The prospect for a widely accepted AIIB looks promising as more developed economies become members, and are expected to promote the standards of developed countries in regional financing. Meanwhile, developing member-countries of the AIIB such as the Philippines will have to adhere and implement transparency, efficiency, and accountability in the utilization of loans and investments it receives. These are critical factors that will hopefully boost the prospects of the AIIB and advance infrastructure development in the region. 🌸

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¹ Don Rodney Ong Junio, "Asian Infrastructure Investment Bank: An Idea Whose Time Has Come?" *The Diplomat*, 4 December 2014, <http://thediplomat.com/2014/12/asian-infrastructure-investment-bank-an-idea-whose-time-has-come/>, (accessed 15 March 2015).

² Raj M. Desai and James Raymond Vreeland, "How to Stop Worrying and Love the Asian Infrastructure Investment Bank," *The Washington Post*, 6 April 2015, <http://www.washingtonpost.com/blogs/monkey-cage/wp/2015/04/06/how-to-stop-worrying-and-love-the-asian-infrastructure-investment-bank/>, (accessed 7 April 2015)

³ Eduardo Tadem, "The Crisis of Official Development Assistance to the Philippines: New Global Trends and Old Local Issues," *Asian Center, University of the Philippines*, March 2007, <http://www.mode.org/oda/pdf/Crisis%20of%20ODA%20to%20the%20Philippines.pdf>, (accessed 27 March 2015).

⁴ Moises Naim, "Help Not Wanted," *The New York Times*, 15 February 2007, <http://www.nytimes.com/2007/02/15/opinion/15naim.html>, (accessed 30 March 2015).

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