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stars insights: 19 September 2019

AIIB Vice President: “Nobody can Monopolize Connectivity”

In an exclusive interview for stars, Dr. ***Joachim VON AMSBERG****, Vice President for Policy and Strategy at the Asian Infrastructure Investment Bank (AIIB), discusses milestones of the AIIB and its relation to the Belt and Road Initiative (BRI). While the BRI has a very broad definition of connectivity, AIIB has a clear focus on financing high-quality infrastructure projects. Von Amsberg views the BRI as valuable, because it motivates more infrastructure investment and it coordinates them, but he also stresses the need to apply high-quality standards for project selection and execution – like AIIB does with its multilateral governance and transparent decision-making.*

Markus HERRMANN: Why was the AIIB created?
Dr. Joachim VON AMSBERG: First, there is a substantial infrastructure financing gap in Asia amounting to approx. 1.7 trillion USD annually – the existing capacity is falling way short of the identified need. Second, expanding the aggregate financing capacity of existing multilateral development banks (MDBs) through capital injections have proven very difficult due to current ownership structures. The creation of the AIIB, a new and Asia focused bank with emerging countries as majority shareholders, addresses these issues.

What are distinct features of the AIIB compared to existing MDBs?
First, the shareholder structure is different with predominantly Asian and emerging countries. The largest shareholders are China, India, Russia, Germany, and South Korea. Second, the financing model is focused on mobilization. We do not simply focus on deploying our balance sheet efficiently, but we try to encourage further co-financiers and the private sector to join in infrastructure financing projects. Third, our business model is strongly geared towards partnerships. We are lean and we do not see the need to build up all relevant capacities in-house, instead we very actively partner with existing institutions such as MDBs, corporates, other banks and governments.

AIIB has invested more slowly than generally expected – why?
The ramp-up of our investments is according to our business plan that we laid out at the launch of the AIIB. Having increased our total annual investment year after year, we are now at a total investment of about 8.5 billion USD. For 2019, we expect investments of about 4 billion USD. In my view, this is in line with our gradual build-up of our capacities, moreover, infrastructure projects are complicated. It takes some time to develop good projects, especially because we put a strong emphasis on project quality, socio-economic viability, environmental and social protection as well as corruption control. For us quality comes first, and it is much more important to build our credibility as a financier for quality projects rather than to get money through the door quickly.

How do you see the role of private capital for infrastructure finance?
It is critical, because official sources will never be sufficient to meet the infrastructure financing gap. The key is to develop policies and projects that allow to attract more private and institutional capital into infrastructure in emerging markets. This, in turn, requires addressing complex issues ranging from macroeconomic stability and regulatory regimes to high-quality project preparation and the project finance structuring. AIIB works more downstream on the project finance side, but we very much emphasize the importance of the work that others do on this entire spectrum of issues, because only if the full set of issues is tackled, country by country, and then project by project, will we be able to attract institutional capital at a larger scale.

Do you have an example of a touchpoint with private capital?
The AIIB participates in platforms for re-financing of projects, because we think that brownfield projects are particularly suitable and attractive to bring in more private capital. This allows development banks or commercial banks to sell off assets to institutional investors and to reinvest in the origination of new projects.

Why is still so little private capital flowing into development financing?
Because the required institutional coordination is very difficult! It requires in each country that many actors come together, coordinate and act together, it can’t be solved by one government or one ministry. The MDBs have traditionally done a good job, but the achieved scale is not enough. As a new MDB, the AIIB hopes to make an impact also in this regard, i.e. by helping to coordinate different government agencies, banks, consulting firms, etc. that need to come together to make infrastructure projects happen.

Turning to the Belt and Road initiative, is the AIIB one of its implementation tools?
No, the AIIB is not an instrument for any particular country or initiative. We have an overlapping mandate with the BRI, because both are motivated to address the insufficient investment levels in connectivity. The AIIB is an instrument to implement policies and priorities of its member countries. We have our own policies in order to evaluate and prioritize projects. If a BRI project meets those criteria, we are happy to finance it, but if it does not, the AIIB is unable to engage.

Has the AIIB already financed BRI projects?
This is hard to answer, because the BRI is broad and does not have hard boundaries. But we have financed projects in BRI corridors. For example, we have financed highways in Pakistan and Tajikistan that form part of one of those six corridors. We are financing these projects, because they are good projects. On this note, this kind of project is typically proactively brought to us by the local government.

Do you see issues if AIIB projects are being labelled as BRI?
This is not of primary concern to the AIIB. These projects can be labelled from outside in whatever form preferred, we look at the intrinsic quality of the project and execute projects according to our policies and standards which includes our own active and detailed communication about individual projects.

Some BRI projects have raised eyebrows among Western politicians and observers.
Overall, I view the BRI as valuable, because it motivates more infrastructure investment and it coordinates them. Concretely, it has alerted country leaders and stakeholders to the importance of infrastructure investment, as well as to the importance to coordinate across larger geographic spaces. Transport corridors won't function if they stop at every national border. However, when you talk about project selection and execution, you should apply high-quality standards and selection criteria – this is exactly what the AIIB does. Our governance is multilateral, so the decision-making is very transparent, and our standards are international standards which are non-negotiable. These basic operating principles – including also for instance social acceptability – we recommend to any institution active in the field of infrastructure financing. In this sense, the AIIB – alongside the other MDBs – is also here to prove that our type of operating model is the best guarantee for the long-term success of infrastructure projects.

What is an unsuccessful project?
If you invest in a power plant meant to generate returns for 40 years but it is turned off after 10 years because it is polluting the neighbourhood and beyond, then this is bad business and will turn into a so-called stranded asset. It has become increasingly difficult for "dirty projects" to get financing, because banks realize that those projects are bad business. We believe high standards lead to good business.

The BRI has a broader definition of connectivity, e.g. also including people-to-people and policy coordination – how does the AIIB fit in?
We are a bank with focus on infrastructure by financing high-quality infrastructure projects. Connectivity is certainly broader than infrastructure, but without infrastructure it is hard to connect. The physical infrastructure remains a key part of connectivity – also the one which probably requires most financial resources. As such, we fit well into a broader connectivity strategy, because we provide financial resources for physical infrastructure. I will nonetheless add that connectivity for the AIIB also includes energy and data.

Everybody is looking at Central Asia, the EU with its connectivity strategy, the ADB with its CAREC program, as well as the BRI and the AIIB – how do you see this region?
It is undeniable that Central Asia is a strategically important geographic region at the crossroads of continent-spanning corridors. However, its countries are relatively small economies with small populations and lacking a solid industrial base. Hence, to me the question is how these countries can make selective strategic investments to capture value from these connectivity programs that traverse their countries. In any case, with strong policies and investments they have the potential to become bigger players in the emerging larger Eurasian trading system.

The AIIB Annual Meeting was held in Luxemburg when Luxemburg had just signed onto the BRI initiative with a MoU – is this a coincidence?
I think so. The reason why we held our first annual meeting outside of Asia in Luxemburg is because the Luxemburg government – quite a while back – generously offered to host it. In fact, Luxemburg was the first European country that had expressed its intention to

join the AIIB. So there is indeed some kind of a special relationship with Luxemburg. In the larger context, however, we saw it more as Europe hosting the annual meeting, as we also held many lead-up events in several European countries.

With David Malpass appointed as President of the World Bank by President Trump vis-à-vis a "Chinese-controlled" AIIB, do you see MDBs being dragged into geopolitics?
I think MDBs in general over the past 70 years – after the establishment of the World Bank – have developed a solid governance and legal foundations. Decisions are taken in consultation, coordination and consensus among member countries. It is not possible for a single country to dominate the agenda of an MDB. Neither the US in the World Bank with 16-17% shareholding, nor China in the AIIB with 26% shareholding. In the day-to-day operation of MDBs, evidenced by my entire time with the World Bank, an overwhelming majority of decisions are taken not by majority voting, but in consensus. The AIIB is displaying very similar practices where we try to rally maximal support in the decision-making.

How are developing countries affected by the numerous concurrent connectivity efforts in Asia from e.g. China, Russia, Japan-India, the US, and from MDBs?
Nobody can monopolize connectivity. Connectivity and infrastructure investment benefit many parties, certainly not only the ultimate direct infrastructure holder. I see it as an empowerment of developing countries if they can choose where to seek financing and support. In this sense, I find the multiplicity of connectivity initiatives in Asia beneficial to the cause of more and better development.

How do you see the challenge of developing countries taking on too much debt?
The AIIB carefully looks at the debt sustainability of a project in the context of the host country. Experience shows how detrimental debt crises are for development. Everyone loses – the country as well as the financiers. We typically draw on the debt analyses performed by the IMF and the World Bank as a basis for our judgments.

The "West" seems to have failed in some of its multi-decade development efforts e.g. in Africa or Latin America – what should we learn from China's model?
China, but also other East Asian countries, definitively offer interesting lessons about development with the state playing a strong role. Infrastructure is certainly only one of its manifestations. Especially China was able to invest very actively in large-scale infrastructure and has pursued successful policies for its industrial upgrading. This should force some humility on those who have a bias towards saying that state-driven development is doomed to failure. In the end, I think the question is more about the institutional set-up in each country and whether a country is able to act in its collective interest, or if it is captured by interest groups with narrow agendas. In some countries public institutions have been able to take such collective action achieving very impressive results. Overall, we must be careful not to stigmatize state-centred development per se, it is more about the effectiveness and accountability of the involved institutions.

To conclude, when does the US become the 101st member of the AIIB?
Every eligible country is free to become a member of the AIIB. We already have US nationals in our staff, we finance project contracts won by US companies and we denominate our balance sheet in USD currency. From our side, there is full openness, but this is entirely up to the sovereign decision of the US.

Dr. ***Joachim VON AMSBERG*** *drives the strategic direction for the Asian Infrastructure Investment Bank (AIIB) in Beijing, including its sectoral and country priorities, its investment strategy and programming, its economic analysis and research, and its operating budget. He also oversees the Bank's environmental and social policies and their implementation. Von Amsberg previously served in a number of progressively senior roles at the World Bank where he most recently held the position of Vice President, Development Finance. He holds a PhD in economic policy analysis and an MBA from the University of British Columbia. He is a national of Germany.*

The interview was conducted by stars alumnus Markus HERRMANN, Co-Head Asia program, Swiss Forum on Foreign Policy, on the sidelines of the stars China symposium 2019 in Chongqing. The views expressed here are solely those of the interviewee and they do not necessarily represent or reflect the views of the stars Foundation.

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