New Global Financial Order and Promotion of Asian Infrastructural Investment Bank (AIIB):

Opportunities and Challenges for Africa

ARTICLE

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Abstract

The main objective of this paper is to examine the effect of Asian Infrastructure Investment Bank (AIIB) on infrastructural development in developing countries with specific reference to Africa. The paper argues that availability of infrastructure has become one of the major problems in the process of economic development generally in the Global South. Given the need for huge capital infrastructure in the region and the presence of the financing gap in infrastructure financing, China initiated the establishment of the AIIB, therefore, heralding a new chapter in the international finance system. The study uses the "New Model Development Finance" lens to discuss Global Governance of Finance with a historical overview of Global Financial Institutions such as the International Monetary Fund (IMF) and World Bank that have been in existence for close to seven decades. It identifies the major challenges which emerging economies have with existing international financial institutions as well as some opportunities and challenges for African countries. It observes that the establishment of AIIB is a major diplomatic victory for China and a foreign policy fiasco for the United States. It argues further that the new bank is a parallel project to the existing international financial institutions and may accidentally lead to a reform of the Bretton Woods system. The paper recommends among others that AIIB should find a way to work hand-in-hand with other existing Multilateral Development Banks (MDBs) since cooperation with such development agencies can engender positive image and goodwill for the new bank. It concludes that the establishment and development of AIIB need support from all over the world because AIIB is designed to provide financing methods for infrastructure in developing countries across the globe including African nations.

Keywords: New Model Development Finance, AIIB, IMF, World Bank, Global Financial Governance, Bretton Woods.

Introduction

China and some other twenty Asian countries signed a memorandum of understanding in October 2014, to set up a new model development bank (Asian Infrastructural Investment Bank) with initial capital of US$100 billion to finance infrastructure in the region and even beyond. At the beginning, this seemed to be an innocuous attempt to solve a pressing problem. Some Development Research Reports, especially the one from the Asian Development Bank (ADB), showed that between 2010 and 2020 Asia would need US$8 trillion for infrastructure development (ADB & ADBI, 2009). In another recent study, Harvard Business School Beijing, China, HSBC, estimates that infrastructure development in the region will require US$11 trillion between 2015 and 2030 (French, 2014). To the surprise of many, including the Chinese, the AIIB has quickly gained great momentum. By the end of March 2015, which the Chinese government set as the deadline for countries to apply to be founding members of the bank, 57 countries from Asia and beyond had submitted their applications. Some countries that did not meet the deadline have nonetheless expressed an interest in participation in the future.

After ratifications were received on 25th Dec, 2015 from 10 member States who hold a total numbers of initial subscriptions of the authorized capital stock, the agreement entered into force and the Bank started operation and open for business on 16th January, 2016. On this day, the board of governors of the Bank convened its inaugural meeting in Beijing and declared the bank open for business and Jin Lqun was elected as the bank's president for a five-year term (Wikipedia, 2016).

It is instructive to note that China's success in establishing the Asian Infrastructure Investment Bank (AIIB) is the latest sign of a broader move away from the view that aid to developing countries is best provided in the form of massive government-to-government transfers. This shows that power and wealth are not only diffusing across the international system, but also within states, such that corporations, foundations, wealthy individuals, private investment funds, civil society groups, and most recently, municipal governments all have a role to play in development (Slaughter, 2015).

The creation of the Asian Infrastructure Investment Bank (AIIB) reflects the greater economic importance of Emerging Economies particularly China. The AIIB, together with other China-led initiatives, such as the New Development Bank (NDB) and Contingent Reserve Arrangement (CRA), has a combined capital base of $250 billion. This represents significant financial firepower roughly on par with the World Bank. The creation of these new institutions partly reflects China's growing dissatisfaction with the existing global multilateral financial frameworks where the country (rightly) feels under represented, since it is now the second largest national economy worldwide, similar in size to the entire euro area. China, along with other emerging market economies, complains about its limited clout in bodies like the IMF, and over the slow pace of reform in addressing this imbalance (EU, 2015).

The emergence of China on the global stage is real, short of an unforeseen event and it has come to stay. The New Multilateral Financial Institution (i.e. AIIB) is only another manifestation of the China's quest to offer unparalleled financing capabilities (and increasingly also technical expertise) to help itself and other Asian countries develop infrastructure and wider economic capabilities. EU (2015) observes further that while on balance this should be a welcome development, prospective participants (especially from Europe and Africa) need to be vigilant that good governance standards are respected. Thus, these stakeholders should not inadvertently help to lay the grounds for a world in which Chinese or AIIB finance will be preferred in emerging markets because it comes without the economic prescriptions and economic and social standards upheld by other multilateral development banks, such as the World Bank.

This paper explores the "New Model Development Finance" that has just been introduced into the Global Governance of Finance and highlights the prospects and challenges it may have for developing countries. It must be emphasized at this point that the existing gap in knowledge in the extant literature necessitated this research. Being a relatively new area, very limited studies are currently available on the subject matter. Few scholars whose works are related to the current research have focused mainly on the impact of the Bretton Woods Institutions such as IMF and World Bank on investment and infrastructures in both developed and developing economies. Scholars such as Eran (2015), Ito (2015), Lu, Wu, & Meng, (2015) and Renard (2015) carried out research on the impact of AIIB on Israel, Japan and some developing countries in different regions of the world excluding Africa. These studies focused mainly on the extent to which Asian countries as well as other developed countries can benefit from the establishment of the bank. Little or no attention has been paid to the possible benefits that may accrue to other developing countries most especially African countries. It is as a result of these observed inadequacies which compelled the researchers in dabbling into study. Thus, this current work believes that one of the prospects of AIIB is that a new range of strategic choices (particularly from Asia) is now available to developing economies especially African countries as well as a new imperative to reform and reinvigorate multilateral and regional organizations operating in the International Financial System.

This paper is organized as follows. The first section is an introduction to the paper. The second section summarizes goals, governance/structure as well as membership of the AIIB. With a view to fill the gaps in knowledge the third section review available literature on the AIIB as well as its policy design. Section four considers historical overview of existing global financial institutions such as World Bank, IMF, etc. Section five examines whether AIIB is a "new model development finance" or a "new Bretton Woods moment". The effort of "one belt and one road" as well as opportunities and challenges of the AIIB for Africa are discussed in the sixth section. The last section concludes and recommends.

Goals, Governance/Structure and Membership of the AIIB

Goals of the AIIB

AIIB was officially established in Beijing in October 2014. Its goals involve boosting regional financial cooperation and funding infrastructure projects in Asia including everything from roads and airports to telecom towers and low-income housing. However, some economists are of the opinion that the establishment of the AIIB follows longstanding criticism by China of existing organizations such as the World Bank and Asian Development Bank (ADB), which it sees as offering only limited roles for emerging economies. The ADB Institute published a report in 2010 which claimed that the Asian region required $8 trillion to be invested from 2010 to 2020 in infrastructure for the region to continue economic development (Bhattacharyya, 2014). However, until March

2015, China in the ADB, has only 5.47 percent voting right, while Japan and US have a combined 26 percent voting right (13% each) with a share in subscribed capital of 15.7 percent and 15.6 percent respectively. It is therefore obvious that the dominance by both countries and slow pace in reforms underlie China's wish to establish the AIIB (Isabel & Enda, 2015).

It is instructive to note that while the AIIB has "Asia" in its name, the ambitions are worldwide, and founding members now include nations from Europe and Africa. About 57 countries had joined the AIIB, with the notable exceptions of the U.S, Japan and Canada. Initially, the interest was not so overwhelming. At the ceremony when creating the bank in 2014, the 21 nations in attendance included India, Thailand and Singapore, but mostly a lot of smaller, poorer Asian countries such as Laos, Nepal, Uzbekistan and Cambodia. But in March 2015, several major economies especially, large European states signified intention to join the AIIB. At this point, membership includes the U.K, France, Germany, Italy, Switzerland, Brazil, Australia, South Korea and Russia, though the final list was yet to be announced. Equally, there has been a strong response from the Middle East. Saudi Arabia, Oman, Qatar and Egypt are reportedly among the signatories.

According to the October Memorandum of Understanding, the AIIB is targeted to start with authorized registered capital of $100 billion, half of which would be contributed by China. While China's outsized contribution would appear to give Beijing de-facto control over the new institution, Chinese Finance Minister Lou Jiwei has said that his country is "not necessarily" seeking a 50% stake in the bank- rather, covering half of the initial capital is meant as a show of support, and China's share in the AIIB would dilute as more nations join.

The establishment of the AIIB coincides with China's "New Silk Road" plan to boost trade and economic relations with the rest of Eurasia, as well as Africa, in part through the development of infrastructure around the region. Thus, the new bank fits well with China's broader goals of projecting an image of a responsible world power, pushing forward the internationalization of the Yuan and increasing China's input in the global financial system.

Governance and Structure of the New Bank

Chapter V, Article 21 of the AIIB sets out the Structure of the new Bank where it says "*the Bank shall have a Board of Governors, a Board of Directors, a President, one or more Vice-Presidents, and such other officers and staff as may be considered necessary".* The Composition of Board of Governors is also sets out in Article 22 paragraph 1 to 3 of the same chapter as follows:

1) Each member shall be represented on the Board of Governors and shall appoint one Governor and one Alternate Governor. Each Governor and Alternate Governor shall serve at the pleasure of the appointing member. No Alternate Governor may vote except in the absence of his principal.

2) At each of its annual meetings, the Board shall elect one of the Governors as Chairman who shall hold office until the election of the next Chairman.

3) Governors and Alternate Governors shall serve as such without remuneration from the Bank, but the Bank may pay them reasonable expenses incurred in attending meetings.

Board of Directors Composition

Article 25 paragraph 1 sub paragraph (i) & (ii) states that the Board of Directors shall be composed of twelve (12) members who shall not be members of the Board of Governors, and of whom:

I. nine (9) shall be elected by the Governors representing regional members; and
II. three (3) shall be elected by the Governors representing non -regional members.

Though, paragraph 5 holds that Directors shall hold office for a term of two (2) years and may be re-elected, but paragraph 2 of the same Article 25 says that "the Board of Governors shall, from time to time, review the size and composition of the Board of Directors, and may increase or decrease the size or revise the composition as appropriate, by a Super Majority vote as provided in Article 28."

Membership of AIIB and Their Voting Power

A total of 57 countries, including Group of Seven economies Britain, Germany and France, have joined the AIIB as founding members. Article 3 paragraph 1 holds that

Membership in the Bank shall be open to members of the International Bank for Reconstruction and Development or the Asian Development Bank. Sub paragraph (a) & (b) further explain the membership:

(a) Regional members shall be those members listed in Part A of Schedule A and other members included in the Asia region in accordance with paragraph 2 of Article 1. All other members shall be non-regional members.

(b) Founding Members shall be those members listed in Schedule A which, on or before the date specified in Article 57, shall have signed this Agreement and shall have fulfilled all other conditions of membership before the final date specified under paragraph 1 of Article 58.

At this point it is pertinent to note that AIIB gained support from 37 regional and 20 non-regional founding members, all of which have signed the Article of Agreement that form the legal basis for the Bank. The initial subscriptions to the Authorized Capital Stock for these 57 Countries are as shown in the table 1 below.

Table 1: The Initial Subscriptions to the Authorized Capital Stock of the AIIB

Regional Members	No. of Shares	Capital Subscription (in million $)
Australia	36,912	3,691.2
Azerbaijan	2,541	254.1
Bangladesh	6,605	660.5
Brunei Darussalam	524	52.4
Cambodia	623	62.3
China	297,804	29,780.4
Georgia	539	53.9
India	83,673	8,367.3
Indonesia	33,607	3,360.7
Iran	15,808	1,580.8
Israel	7,499	749.9
Jordan	1,192	119.2
Kazakhstan	7,293	729.3
Korea	37,388	3,738.8
Kuwait	5,360	536.0
Kyrgyz Republic	268	26.8
Lao People's Democratic Republic	430	43.0
Malaysia	1,095	109.5
Maldives	72	7.2

Mongolia	411	41.1
Myanmar	2,645	264.5
Nepal	809	80.9
New Zealand	4,615	461.5
Oman	2,592	259.2
Pakistan	10,341	1,034.1
Philippines	9,791	979.1
Qatar	6,044	604.4
Russia	65,362	6,536.2
Saudi Arabia	25,446	2,544.6
Singapore	2,500	250.0
Sri Lanka	2,690	269.0
Tajikistan	309	30.9
Thailand	14,275	1,427.5
Turkey	26,099	2,609.9
United Arab Emirates	11,857	1,185.7
Uzbekistan	2,198	219.8
Vietnam	6,633	663.3
Unallocated	16,150	1,615.0
Sub-Total	***750,000***	***75,000.0***
Non-Regional Members	**No. of Shares**	**Capital Subscription (in million $)**
Austria	5,008	500.8
Brazil	31,810	3,181.0
Denmark	3,695	369.5
Egypt	6,505	650.5
Finland	3,103	310.3
France	33,756	3,375.6
Germany	44,842	4,484.2
Iceland	176	17.6
Italy	25,718	2,571.8
Luxembourg	697	69.7
Malta	136	13.6
Netherlands	10,313	1,031.3
Norway	5,506	550.6
Poland	8,318	831.8
Portugal	650	65.0
South Africa	5,905	590.5
Spain	17,615	1,761.5
Sweden	6,300	630.0

Switzerland	7,064	706.4
United Kingdom	30,547	3,054.7
Unallocated	2,336	233.6
Sub-Total	***250,000***	***25,000.0***
GRAND TOTAL	**1,000,000**	**100,000.0**

Source: *Schedule A of the AIIB's Articles of Agreement*

A quick look at the above table shows that regional participating countries contributed about 75 percent while the non-regional participating countries contributed 25 percent. It also shows that China has the highest contribution in the region (which is about 39.7 percent) while the rest 36 regional countries contributed the remaining 60.3 percent. The analysis of the table further shows that in all (both regional and non-regional contributions) China contributed about 30 percent of the initial subscription to the Authorized Capital Stock. Following from the above, it should be noted that voting powers would be shared according to the number of shares of the capital stock. Paragraph 1 of Article 28 provides that the total voting power of each member shall consist of the sum of its basic votes, share votes and, in the case of a Founding Member, its Founding Member votes. Sub paragraph (i) of the Article 28 further holds that "the basic votes of each member shall be the number of votes that results from the equal distribution among all the members of twelve (12) per cent of the aggregate sum of the basic votes, share votes and Founding Member votes of all the members." Sub paragraph (ii) of the same Article also says that "the number of the share votes of each member shall be equal to the number of shares of the capital stock of the Bank held by that member" (AIIB Articles of agreement, 2015).

It is clear that China holds over a quarter of the votes in the new Asian Infrastructure Investment Bank (AIIB), giving it a veto in some key decisions despite Beijing insisting it will not have such powers. This a confirmation of the statement made by the Chinese Finance Ministry on June 29, 2015, that "China would have 26.06 percent of the voting rights in the bank. This would effectively give the country a veto on votes requiring a "super majority," which need to be approved by 75 percent of votes and two-thirds of all member countries" (Qing & Blanchard, 2015). A super majority vote is needed to choose the president of the bank, provide funding outside the region and allocating the bank's income, among other decisions.

Review of Literature

Establishment and development of AIIB has attracted close attention of both regional and international scholars and relevant agencies. For instance, China has now become the second largest economy in the world behind the United States, it remains largely underrepresented in the World Bank and the ADB, which are dominated by the United States and Japan respectively. In fact, the United States has systematically resisted any significant reform of the World Bank and IMF structures. As a result, emerging powers such as China have increasingly questioned the legitimacy of these institutions, which in their eyes reflect a now vanished era dominated by the West. This has certainly encouraged them to consider alternative forms of multilateralism (Renard, 2015).

It is important to state that a major rethinking coming from China in form of Asian Infrastructure Investment Bank (New Model Development Finance) is in order. From a geopolitical perspective, China's "New Model Development Finance" is a bold and successful gambit. In that, AIIB is "an institutional competition for global governance that has now officially begun." The goal of this 'New Model' is clearly different from the one pursued by the Modernization Theory which prescribed Aid (that was so closely linked to the economic and political position of the US) to Developing Countries.

Furthermore, having lost confidence in the Washington consensus in the Great Recession since 2008, developing countries (Africa inclusive) are increasingly looking up to the East for development experiences and ideas and their quests are what worked, why and how. Similarly, theories describing international financial system seem to be inadequate in explaining the diversified financing flows for infrastructure development goals. Also, conditionality has been fundamental to Western countries' development programmes in Africa, hence their concern with China's apparent different approach.

Frost (2014) examines causes of crisis of legitimacy which has led to rival regionalisms and regional order. The study finds that the legitimate reasons why rival regionalisms have emerged is because of the ridiculous and shameful way that developing countries remain underrepresented in the existing regional and global institutions. Syadullah (2015) compares the performance of various exiting MDBs with promises of the AIIB. The study finds that the most MDBs are generally not interested in funding long-term projects such as infrastructure that takes between 15-30 years to pay off the investment and that AIIB seems to assume a complementary role to all other MDBs.

Huang, Kuang & Yan (2013) sum up the successful experience of the World Bank in terms of investment management, credit evaluation mechanism, and put forward some recommendations to build AIIB. Lou quoted in Xia (2014) makes a brief description on differences between AIIB and other development banks; he believes AIIB is a new member and partner in the field of international development when there is a huge infrastructure financing demand in Asia.

It has been observed that the effect of AIIB is not limited to Asia alone. In recent years, the Chinese government continues to make great efforts to get more right in WB, IMF and WTO, but the ultimate effect is limited. The establishment of AIIB is a signal of major emerging economies starting outside "Bretton Woods". From the angle of the responsibility of the international community, China provides international public goods and promotes the development of the country's economic development, which reflects international responsibility of a big country. Many developing countries have made great achievements after decades of economic construction. Taking China's foreign exchange reserves as an example, it is up to $4.3 trillion through years of accumulation. China has the financial capacity to export capital and rescuing other developing countries. It is in ample supply and demand of funds and a new international financial that the idea of AIIB emerged.

According to Lu, Wu & Meng (2015), Leo Melamed, Father of Financial Futures, observed that China's leading the initiative is worth cheering. Economy of Asia accounts for 33% of the world (Wang, 2015). After Britain's application for entering AIIB, the Professor of University of Western Australia, Mark Beeson quoted in Lu, Wu & Meng (2015) makes the following comments "Britain's decision is really a key of the current new international order." Based on the above point of view, domestic scholars have discussed issues on system design, risk management, product risk, while foreign scholars mainly make comments on attitude from different countries.

As noted earlier, many scholars believe that the development of the AIIB follows longstanding criticism by China of existing organizations such as the IMF, World Bank and Asian Development Bank, which it sees as offering only limited roles for emerging economies. Unfortunately, according to Mahbubani (2015) the American-dominated World Bank cannot serve as a model for the AIIB. It is now well known that the World Bank has served as an instrument of American foreign policy. For example, literature has documented how the World Bank punished Ethiopia at the request of private American banks, which had lost revenue on loans to Ethiopia (Stiglitz quoted in Mahbubani, 2015).

It is also imperative to note that China's previous development cooperative activities serve as a good precedence for its AIIB. China's South-South Development Cooperation (SSDC) was a good example. China's approach in SSDC differs from the international aid literature of established donors, focusing on "poor helps the poor" and "solider teaches solders" by utilizing China's comparative advantage and by combining trade, investment and development cooperation. In official language, China follows the principles of equality and mutual respect, reciprocity, mutual benefit, and non-interference of domestic affairs. Aside from adherence to the "One China" principle, no political strings are attached to China's cooperation (State Council Information Office, 2011). This is not to say that China's aid or development cooperative activities are "altruistic", they are not. Seriously they are mutual benefit. The government "never regards such aid as a kind of unilateral alms but as something mutual." This "mutual (economic) benefit" is based on the simple idea of "exchanging what I have with what you have" (*hutong youwu*) from which both can gain, as we learned from Adam Smith. This is actually a market-based approach which ensures the incentives of both partners are aligned (Wang & Lin, 2015).

AIIB Policy Design: Complements Vs Substitutes

China has created an action plan for its Silk Road concept in the form of the "One Belt, One Road" (OBOR) initiative. It is grandiose, potentially involving an area that covers 55 percent of world GNP, 70 percent of global population, and 75 percent of known energy reserves. China's financial commitments to the project seem huge: some multilateral and bilateral pledges may overlap, but it is still likely we are looking at up to $300 billion in infrastructure financing from China in the coming years (Yini, 2015) – not counting the leveraging effect on private investors and lenders, and the impact of peer competition.

China and its partners in the AIIB thus plan to build big things – roads, bridges, dams, railroads and ports – that unquestionably power an economy and that citizens notice, but that the US, and for that matter the World Bank, no longer funds. The world's great expectations further increase the audience for what the Chinese sometimes describe as the country's "second opening," after the 1979 model which led to China's rapid growth over three decades. For example, there is much discussion of the success beyond all expectations of the China-led Asian Infrastructure Investment Bank (AIIB).

Intense debate is being carried out about the Silk Roads in countries that have reason to worry about some of their implications (Godement, 2015).

Now it is being implemented with both political capital and hard currency. In terms of the latter, as Jacobson (2015) observes, a new Silk Road fund, Asian Infrastructure Investment Bank (AIIB), has been launched and it has USD 100 billion with which to support infrastructure investment in countries involved in what Chinese more commonly call the "One Belt, One Road" plan. Jacobson (2015) further opines that AIIB may not be a "Chinese Marshall plan" in the fullest sense, but the result should mirror the gigantic boost that the US gave Europe after World War II where (through access to credit and infrastructure investment) the US oversaw a quick European recovery that left Washington as its main financial and geopolitical beneficiary. The Marshall plan gave birth to the rise of the US' hegemonic power. Xi's vision is to create a Silk Road in Eurasia – a link across Western China (which is underdeveloped and politically unstable) to Venezia in Italy and down to Cape Horn in Africa. The plan is to give access to credit and investment, which should in turn build close ties between China and Eurasia. Unlike the Marshall plan, everyone can partake without – at least officially – any pre-conditions attached.

China's push for the AIIB originated from China's frustration towards the existing international financial institutions such as the IMF or the World Bank that favour the West through voting rights distribution and head post appointments, as well as the ADB, which holds Japan as the largest shareholder and has traditionally maintained Japanese presidents. It could be a part of China's national strategic plan to raise its stature in the international financial system to match its status as the number two country in the world by GDP. Regarding the necessity of the AIIB, China has reasoned that the ADB and the World Bank alone cannot provide for the growing infrastructure needs in Asia; it has also pointed to the IMF's new quota reform, which has not been ratified due to opposition from Congress in the United States. This second point, especially, plays on the United States weakness (Ito, 2015).

When the AIIB was first proposed in October 2013 China was prepared to do the following: establish its headquarters in Beijing; appoint a Chinese president; secure capital up to 100 billion dollars; and establish China as 50% holder of AIIB shares. The initial consensus, mostly expressed by the developed countries, was that the AIIB would be "a Bank of China, by China and for China," and would not be accepted as an international financial institution. Since then, China has continuously modified the core architecture of the AIIB, such as lowering its own shareholder percentage, and has attempted in various ways to call for nations to join the AIIB. Even then, the participating members were limited to developing countries and emerging economies – until February 2014 (Ito, 2015).

Nearly half a month before the deadline at the end of March to become charter members of the AIIB, the United Kingdom suddenly announced it would join the AIIB and entered into negotiations. Germany, France, Italy, Australia, and Korea quickly followed suit, announcing their participation in the new infrastructural investment bank. The charter members thus took shape with Japan, the United States, and Canada as the only major players to be excluded.

The unfolding of the membership application process really attracted attention far beyond the development and financial circles all over the world. In early March 2015, the United Kingdom surprised the world by announcing its decision to join the AIIB, despite the explicit warning of the United States to the contrary. In response, the US government openly criticized the British government for doing so without consultation with the United States, and for its "constant accommodation of China" (Dyer & Parker, 2015). What followed was an avalanche of new applications from major economies in different parts of the world, including most of the United States' strong allies, such as Germany, France, Italy, Korea, Australia, Taiwan and Israel. Left in a state of diplomatic isolation, the United States then has to soften its opposition to the new bank, but the embarrassment has been profound.

The embarrassment was so enormous that former US Treasury Secretary Larry Summers (2015) commented: *"This past month may be remembered as the moment the United States lost its role as the underwriter of the global economic system."* Also, former US Secretary of State Madeleine Albright put it just as bluntly: *"We screwed it up"* (quoted in Sands, 2015). Pundits and reporters across the globe have portrayed the establishment of the AIIB as a symbol of the emergence of a new international financial/economic order (Chhibber, 2015; Zhongkai, 2015) and of a power shift from a declining United States to a rising China (Merry, 2015; Shen, 2015).

The bank aims at "complementing the existing efforts of the multi-lateral and regional financial institutions for global growth and development". Publications in Chinese have stressed that the NDB, CRA and AIIB will act as complements to, rather than substitutes for the World Bank, IMF and ADB. Sceptics remain unconvinced. To be sure, the new outfits bring big money to the table. The NDB, CRA and AIIB are each expected to be capitalised at US$ 100 billion, which means the NDB could soon offer loans as generous as those of the World Bank – the bank has paid out US$ 60 billion in loans so far this year. That being said, by Chinese standards, the new institutions' resources remain relatively modest. In 2013, the China Development Bank (CDB) alone issued $240 billion in loans, financed entirely by China (Lauzon-Lacroix, 2014).

Moreover, the NDB and AIIB will only meet a small portion of the global demand for infrastructure. According to the World Bank, the infrastructure deficit in low- and middle-income countries adds up to US$ 1 trillion, and the gap is widening as emerging economies continue to grow. There should be plenty of room for at least a few more banking acronyms.

Based on the above point of view, we can deduce that regional scholars have largely focused on system design, risk management, how multilateral development banks are dominated by the United States and how global financial governance has always favoured developed economies, while international scholars mainly make comments on attitude from different countries. Therefore, this study is a comprehensive assessment of opportunities and challenges of AIIB especially for Africa which is still in lack.

Historical Overview of Global Financial Institutions

When the International Monetary Fund and the International Bank for Reconstruction and Development were created at the Bretton Woods Conference in 1944, the governance and voting structures of these institutions, with a total of 44 founding member nations, were dominated by the US and Europe. With the decline of colonialism in the 1950s and 1960s, the number of member countries of the IMF and World Bank rose from 44 to 188 as the former European colonies gained independence. Moreover, the share of world GDP belonging to developing countries has risen significantly. The world economy has changed dramatically in the seventy years since Bretton Woods, but the IMF and World Bank's governance structures have hardly evolved since 1944 (Biswas, 2015).

That criticism contains some truth. But, over the longer term, the new US model of development is actually far more resilient and sustainable than the old government-to-government model. Only societies with thriving sectors free of government control can participate in these broad coalitions of public, private, and civic actors. Corporations, foundations, and civil-society groups, in turn, are much more likely to forge lasting ties with their counterparts in local communities in the host countries – relationships that will survive changes of government and fiscal turbulence.

Despite the sustained efforts of developing countries to urge reforms of Bretton Woods to reflect the greater economic weight of developing nations, the pace of changes in the distribution of voting rights has been glacial, even while the status quo is distorted, most notably for China amongst the BRICS nations. For example, the US controls 16.75% of voting rights in the IMF, while China, the world's second largest economy, has 3.81% (Biswas, 2015).

The rise of emerging economies especially from the global South is injecting a new urgency into reforming international institutions, as is clearest in global finance. Faced with global crisis, the status quo powers—the Group of 7 (G7) finance ministers—have had to reach out to emerging economies, including them in the Group of 20 (G20), requesting resource contributions and agreeing to give them more voice in relevant international organizations. However, emerging economies are not yet confident that multilaterals will work for their interests as much as for the interests of Europe and the United States, so they are also pursuing national, bilateral and regional strategies. As we will see below, instead of relying on the International Monetary Fund (IMF), to which they had contributing more, they are now also amassing their own foreign exchange reserves (self-insurance), using bilateral credit lines in moments of vulnerability and reinforcing regional arrangements (Held & Young, 2009).

Thus, to understand the functioning of the system of global financial governance, it is very important to also understand the national background of the institutions functioning in that system. This will enable us to estimate the role a particular institution plays in the system and indeed those institutions do not only shape the system itself and elaborate the implied regulation within the system, but more precise look at them can also help to understand the power relations within the system.

Regional institutions in Asia are living expressions of geopolitics. They reflect balances of power, political compromises, common security challenges, strategic rivalry, trade and investment ties, and public diplomacy. They sprout amid enormous diversity and paper over troublesome history. They offer weaker nations a stronger collective voice and more powerful states a chance to conduct bilateral meetings away from media attention. Upcoming meetings sometimes prompt peaceful gestures from states seeking to ward off anticipated peer pressure. Within regional bodies, the governments of smaller nations often practice the politics of weakness, playing rival powers against each other and channelling major-power rivalry in directions that benefit their own countries. Participation in such groupings also endows these governments with legitimacy and nominal equality without the burden of rules such as fixed deadlines, binding tariff ceilings, mandatory dispute settlement, environmental impact statements, and a host of others. For protectionist or authoritarian governments, the agreements forged under a regional framework can lock in policies benefiting elites and serve as protection against Western pressure to adopt more far-reaching economic and political reforms (Frost, 2014).

In the recent time especially after the world financial crisis, the international and transnational attempts to create an effective system of financial regulation increased dramatically. The system of financial governance and global financial governance in particular consists of multinational, interacting with each other, layers of institutional rules and processes, in which the decision made in one institution affects the decision-making process in other institutions. In globalized world, influence is often mediated through institutions, which open up the possibilities for a "*skewed participation*" (Shaffer, 2005:131), which allows more powerful actors indirectly influence the decision made there, but their power can also be restricted by institution rules and procedures.

Wang (2015) observes that after the Asian financial crisis in the late 1990s, China had to join the Chiang Mai Initiative (CMI), a regional arrangement of bilateral currency swaps. It also pushed for the Asia Bond Market Initiative (ABMI) in the early 2000s, seeking to increase Asian countries' self-sufficiency in financing. Later, China played an important role in multi-lateralizing the swap arrangements of the CMI, turning it into the Chiang Mai Initiative Multi-lateralized (CMIM), a regional pool of foreign reserves of US$240 billion.

In the last two years, China has become more active in initiating and leading minilateral financial institutions. In July 2014, it cooperated with the other BRICS countries — Brazil, Russia, India and South Africa — and established a New Development Bank (NDB). With an initial subscribed capital of US$50 billion and authorized capital of US$100 billion, the BRICS bank plans to invest in infrastructure and sustainable development projects in member countries and other developing countries. At the same time, China and fellow BRICS countries also created a Contingent Reserve Arrangement (CRA) of US$100 billion. The stated goal of the CRA is to help members deal with short-term balance-of-payment pressures and reduce financial instability caused by liquidity problems. That was followed by the announcement of the planned AIIB in October 2014 (Wang, 2015).

AIIB: A New Model Development Finance or a New Bretton Woods Moment?

With the establishment of the AIIB and with countries from around the world stampeding towards the China-led New Development Bank, it shows that the world is finally witnessing the rise of a new international financial order. But at this juncture when scholars of the future look back, will they see March 2015 as a truly new Bretton Woods moment? The answer is likely to be no. First of all, as Helleiner showed in his recent book, Forgotten Foundations of Bretton Woods: International Development and the Making of the Post War Order, the Bretton Woods conference in July 1944 may appear to have been a decisive moment, when nations came together to redesign the international financial system, but it was actually the culmination of an extended historical process that had been underway for a number of years.

The final blueprint of the new international financial system drew heavily from the intellectual and policy experiments that had been going on since the 1930s, including the New Deal in the United States, state led economic growth in Latin American countries and various international currency-stabilization programs (Helleiner, 2014).

Similarly, the emergence of a new international financial architecture today is not likely to be accomplished by a single event. The establishment of the AIIB as a China-led international development bank may seem to be a momentous turning point from a US-dominated financial governance system. But it is only the latest event in more than a decade of increasing Chinese involvement in minilateral financial cooperation (Wang, 2014).

Compared with the earlier regional financial arrangements, the more recent initiative of financial minilateralism — the AIIB, is far more China-centred. However, several common ideas underlie this minilateral institution — dissatisfaction with, and distrust in, the Bretton Woods institutions dominated by Western powers, a strong desire for self-assurance and mutual assistance, and a belief in the importance of infrastructure for economic development and the role of governments therein. These ideas have come from years of development experience of China and other countries in the region, and from their disappointment in how Bretton Woods's institutions responded to the Asian financial crisis and the global financial crisis (Wang, 2015).

The United States, which initially cautioned nations against joining the AIIB, has expressed concern over how much influence China will wield in the new institution. China has maintained it will not have veto powers, unlike the World Bank where Washington has a limited veto. Xinhua news agency quoted China's vice finance minister Shi Yaobin as saying that China did not seek a veto in the bank, describing its stake and voting share in the initial stage as a "natural result" of current rules. The ministry added that the initial stakes and voting rights of China and other founding members would be gradually diluted as other members joined. If the establishment of the AIIB were to be followed by major reforms of the Bretton Woods system, the sources of reforms would have to be traced to the incremental process of change of the previous decade or more (Qing & Blanchard, 2015).

Stakeholders' arguments for reforming the international financial system can be traced back a long way. In the early 1980s, faced with a destabilized exchange rate system, French and US finance officials called for a new Bretton Woods conference, although it was never acted on (Boughton, 2009). Although the old system showed more and more problems, a new system did not come into being because reform lost impetus. Scholarly discussions of a new Bretton Woods system go back to at least the same time (Camps, 1980; Helleiner, 1983; Wang, 2015).

Following the outbreak of the global financial crisis in 2008, the talk about a new Bretton Woods system has intensified among policy makers as well as scholars. For instance, in October 2008, the British prime minister and the French president called for a new Bretton Woods agreement. Many others expressed hope for a new global financial architecture with better financial oversight and regulations, and greater representation of the emerging economies in major international institutions. However, despite the reformist rhetoric, there has not been any fundamental change to the main features of the existing financial order. The Group of 20 (G20), touted to be the premier forum of economic cooperation among developed and emerging economies after the crisis, has not played as big a role as advertised in the management of the crisis. The US dollar continues to be the dominant international currency. The pro-market nature of financial standards remains largely intact. The Financial Stability Board, established after the crisis to strengthen financial regulation, has limited capacity (Helleiner, 2014).

In recent years, the Chinese government continues to make great efforts to get more right in World Bank, IMF and World Trade Organisation, but the ultimate effect is limited. The establishment of AIIB is a signal of major emerging economies starting outside "Bretton Woods". From the angle of the responsibility of the international community, China provides international public goods and promotes the development of the country's economic development, which reflects international responsibility of a big country. Many developing countries have made great achievements after decades of economic construction. Taking China's foreign exchange reserves as an example, it is up to $4.3 trillion through years of accumulation. China has the financial capacity to export capital and rescuing other developing countries. It is in ample supply and demand of funds and a new international financial that the idea of AIIB emerged (Lu, Wu & Meng, 2015).

One Belt One Road: Opportunities and Challenges for African States

Opportunities for African States

Poor infrastructural development has always been the bane of regional integration among African countries. Lack of progress in implementing agreements along with the dearth of reliable transport, energy and information and technology infrastructure make the journey towards regional integration long and arduous. Even with the current gains Africa is making in upgrading regional infrastructure, the New Partnership for Africa's Development (NEPAD), the African Union's development arm, finds the continent still faces serious infrastructure shortcomings across all sectors, both in terms of access and quality. NEPAD has just completed a 30-year plan that focuses on regional trans-border projects like the 4,500-km highway from Algiers in Algeria to Lagos, Nigeria. Africa requires huge investments to develop, upgrade and maintain its infrastructure. The African Development Bank, (AfDB) estimates the region would need to spend an additional $40 billion a year on infrastructure to address not only current weaknesses but also to keep pace with economic growth (Tafirenyika, 2014).

China's establishment of the AIIB is the latest sign of a broader move away from the view that aid to developing countries is best provided in the form of massive government-to-government transfers. Power and wealth are not only diffusing across the international system, but also within states, such that corporations, foundations, wealthy individuals, private investment funds, civil society groups, and most recently, municipal governments all have a role to play in development (Slaughter, 2015).

The bilateral Silk Road Fund is intended to finance investment in transportation infrastructure throughout a "Silk Road Economic Belt" stretching across Central Asia to Europe, and a "21st Century Maritime Silk Road" across the South China Sea and the Indian Ocean to Africa and the Middle East. It will also finance China's access to Central Asia's energy sources (Wihtol, 2015).

One good opportunity that Africa stands to benefit from AIIB is "rebalancing" the world economy. The "economic imbalances" that characterizes most African States are the root causes of financial crisis and that China is expected to provide more public goods" to mitigate them. This argument, playing on the terms "imbalances" and "rebalancing", could be interpreted as an indirect criticism of the US. It is also imperative for African State to be concerned about China's rise because, historically, a country that grows more powerful tends to "bully" others. However, the world has entered a new period: China today is "a giver, not a taker" and it aims to help poorer countries in its neighbourhood to develop (Bondaz, 2015).

Apart from Namibia which appears to be relatively developed in terms of infrastructural facilities in Africa, the state of infrastructural development in Africa is nothing to write home about. Unfortunately, majority of the African states unlike the other developing countries across the world did not respond positively to the establishment of AIIB. There is no doubt that the second largest economy in the world, with an estimated 12.4 per cent of the world's GDP, China is well placed economically to assist in the improvement of infrastructure across Asia, other developing countries and Africa in particular. AIIB no doubt, will provide China the required clout within existing financial institutions to execute its vision to give developing countries like Africa greater influence in global development financing.

From the point of view of developing countries in need of capital, competing banks probably look like a good thing. Developing-country governments will be only too pleased to borrow without the pesky conditions that the World Bank and existing regional development banks typically attach to their loans. And, as a region, East Asia will now get more of the roughly $8 trillion that the Asian Development Bank has estimated that the region will need to keep growing through 2020 (Slaughter, 2015).

Certainly China's motive has been commerce rather than stressing a need for Africa's political and economic reform (Mohan & Power, 2008) in contradiction to the West that sought to introduce a neoliberal ideal (Carrier & Miller, 1998). It appears not to have been a "civilizing" nor a proselytizing motive. Yet there has been an emerging line within the international relations literature that alludes to a nationalist perspective and a Chinese perception of superiority of Chinese culture: that it is the patriotic duty of China's elites to spread Chinese values and culture around the world (Nyiri, 2006; Callahan, 2008). This may well manifest itself in the funded Confucius Institutes attached to a number of the continent's universities.

Just of recent before the establishment of its AIIB, China has really dominated African State economy. However, its current-day motives for being in Africa, which Gill, Huang & Morrison (2007) describe as resources-seeking to fuel China's development goals, market-seeking to sustain its growing economy and political seeking to support its aspirations to be a global influence, must be seen within this recent historical context. It may also be possible that Gill et al.'s (2007) three types of motives may be too restrictive in terms of hypothesizing the connection between the reasons for China's being in Africa and the approach that Chinese MNEs have towards people policies and practices. Also there may not be a direct relationship between wider strategic motives professed by Chinese government policies and their manifestations in inter-governmental relations with African governments and actions at organizational level, as we discuss below. Yet just as the way that the West's resource-seeking motives for being in Africa may have been modified by a civilizing and proselytizing ethos, so China's resource-seeking motive may be moderated by the nature of its socio-political engagement.

It is understandable that China would have a dominant role, but the fact that it did not officially demand veto power gave incentive for more states to sign up. This shows that "the AIIB's structure can still be negotiated," (Mingjiang in Teo, 2015). In fact, a Wall Street Journal article in March 2015 said China agreed to forgo its veto power to win the support of key European nations (Wei & Davis, 2015). Beijing, however, has maintained that it does not seek it. China's emphasis on the bank's inclusive nature and its willingness to work with similar institutions like the Asian Development Bank (ADB) helped allay concerns, according to experts. Moreover, its focus on infrastructurebuilding in a region sorely lacking it and the opportunity this gives to Western firms to be involved in new projects whittled away at US arguments against the bank (Teo, 2015).

As of March 2015 ending – the deadline to apply to become an AIIB founding member – 46 countries across five continents had signed up. The founding members, including Singapore, will help create the bank's governance and operational rules. States that join after the deadline will have voting rights, but less say in making the rules. As China has no previous experience managing a multilateral lender, the future of AIIB, which has an initial capital of US$50 billion (S$68 billion), remains uncertain. Concerns remain over how democratic and transparent its governance structure will be and if it will uphold high lending standards. This includes issues such as how the bank's voting shares will be split and how its board of directors will be structured. Dingding quoted in Teo (2015) said Beijing must make a serious effort to show that the AIIB is not just another weapon for China to dominate South-east Asia. Failing to do so would jeopardize not only the AIIB's goals but also China's aim of a peaceful rise.

Also, Gallagher quoted in Teo (2015) observed that relinquishing veto power is better for Beijing in the long run. Other issues such as where the bank's headquarters will be and the people it hires are also being closely watched amid fears that Beijing will use the AIIB as a geopolitical tool. It must be noted that Chinese officials are of the opinion that the bank's headquarters should be in Beijing. Also, Jakarta has equally lobbied for the same position as Indonesia seeks a major AIIB role (Wihtol, 2015).

Challenges for African States

There are some major problems with China's plan for the AIIB governance structure. The first problem is that China will be by far the leading shareholder in the bank. It has already been determined that the ratio of quota (voting shares) held by regional members to non-regional members will be constant at 3 to 1, thus limiting the influence of African nations from the outset. It is instructive to note that because the participation of Western countries in AIIB is limited, China has remained its undisputed leader. In the same vein, very few African nations have joined the bank. To date, only Egypt and South Africa are members of AIIB.

Apart from the way the bank is managed, the quality of the projects the AIIB invests in will also be a litmus test. There are concerns that the bank might fail to keep global standards in environmental, labour and anti-corruption protection, given that China's bilateral lending programmes across Africa, Asia and Latin America have been tainted with controversial projects. The biggest question, however, is what happens if the US and Japan decide to join the AIIB later. Wihtol does not foresee any difficulties in such a working relationship as "China, Japan and the US have for many decades worked together closely in the World Bank, the ADB and other multilateral banks" (Teo, 2015).

One major challenge which African countries may face as members and beneficiaries of AIIB is the need to be conscious of the level of their involvement in the organization. It must be emphasized that the incumbent international financial intermediaries like World Bank and IMF have been plagued by ineffective recommendations which fail to resolve the economic problems within the borrower African countries. It is on record that the IMF attached conditionality to loans which has led to the loss of a borrower country's authority to self-govern its domestic economy due to the fact that national economic policies of such nations are tied to the IMF loan package conditions. Not only that the World Bank's lending policies has also been criticized because of its social and economic implications on the affected African countries. A good example of this is the hydro-electric dam projects funded in many African countries which has led to displacement of many indigenous populations. Notwithstanding the aforementioned challenges, AIIB can be the balancing beam to reset the status quo in Africa and other developing countries and to possibly become a driving force for the rest of the globe as alternative to World Bank and IMF (Ku, 2015).

Conclusion and Recommendations

Conclusion

With the expansion of infrastructure, establishment of AIIB welcomes the opportunity. The current world economic situation has undergone new changes, and Asia has contributed more than 50 percent into the world economic growth. Besides, developing and emerging market countries have accounted for more than 50 percent in the proportion of total global economy. In order to meet the growing financing needs, urgent need for multilateral financial agencies like AIIB is necessary.

The establishment and development of AIIB need support from all over the world. AIIB is designed to provide financing methods for infrastructure in developing countries, during which China needs to play an active role in advocacy and coordination and seeks for world cooperation on infrastructure investment. Therefore, establishment and development of AIIB need more common communication, co-operation and participation.

Recommendations

Firstly, the paper recommends among others that AIIB should find a way to work hand-in-hand with other existing Multilateral Development Banks (MDBs) since cooperation with such development agencies can engender positive image and goodwill for the new bank. An active attitude is cooperation and openness, especially under the condition of capital constrained and inexperienced management. First, AIIB can learn from the experience, such as the decision-making mechanism, the project is running, positioning and other institutions, to avoid vicious competition. Secondly, the existing multilateral organizations, including WB and IMF also have infrastructure business. Groups' separation from each other will generate unhealthy competition. Only by seeking communication and cooperation, can we get maximum functionality. For example, WB and IMF concentrate on developed countries where developing countries do not have a great voice. Based on these facts, AIIB can carry out in-depth cooperation with WB, particularly in infrastructure projects in the field, especially in developing countries.

Following from the above, there should be mutual respect among super economic powers. Mutual respect is the precondition for developing cooperation between China and the United States. The relations between different countries are like the relations between human beings. Mutual respect lays the foundation for good faith cooperation. The same thing applies to the relations between major countries. When China and the U.S., the two largest economies in the world, cooperate, it makes a difference.

Furthermore, it is the recommendation of this paper that it is very important for the Chinese led-bank-AIIB, to keep politics and economy balance. Since its first attempt to establish an international development agency for China, China may find it difficult to keep balance of politics and economy. As AIIB's headquartered is preferred in Beijing the bank may set up a branch in the South Asian region such as Indian capital city, New Delhi. The branch in Southeast Asian region can also be located in Jakarta. Branches in Central Asia may be located in Russia Moscow, which can substantially constitute to Beijing as the vertex, Moscow, New Delhi and Jakarta as the first line of an isosceles triangle, and expand the scope of radiation Asian investment bank (Sheng & Cao, 2015).

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