



# BULLETIN

No. 54 (786), 27 May 2015 © PISM

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## The Asia Infrastructure Investment Bank: Opportunities for Polish Businesses

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*The Asia Infrastructure Investment Bank, which has so far gathered 57 countries willing to participate as founding members, is projected to be a tool for improving infrastructure in Asia, but also an answer to stalled reforms of international economic institutions, such as the IMF. Poland's participation in the bank could help to internationalise Polish enterprises, as it will give them the opportunity to take part in infrastructural projects. Poland should attentively assess the implementation of the bank's rules, in particular regarding opportunities for non-Asian enterprises to participate in regional projects.*

In October 2013, China mooted the idea of the China-led, inter-governmental Asia Infrastructure Investment Bank (AIIB) as a mechanism for tackling Asia's yawning infrastructure chasm. A year later, 21 countries signed a memorandum on establishing the bank with headquarters in Beijing, authorising capital of \$100 billion (at the initial stage, \$50 billion) and a shareholding structure granting 75% ownership to Asian members and 25% for non-Asian investors (China is expected to hold the most shares). Later, the deadline for submitting applications to become bank's founding members, with the right to shape its rules, was set for 31 March 2015. There are currently 57 "prospective founding members" (among them 14 EU countries, including Poland). Earlier, the negotiations over the statute (so called Articles of Agreement—AOA) were launched. At the fifth round of talks held in Singapore in May, the AOA were finalised. However, details have not been revealed yet.

The AOA are expected to be officially signed by late June. Ratification of the document by the states will decide the final list of AIIB founding members. The formal establishment of the bank is scheduled for the end of this year.

As the first large scale Chinese financial initiative, the AIIB will test Beijing's ability to create new institutions as a means of confirming China's great power status. In the long term, the AIIB might become a challenge to the existing global economic governance system, which has the IMF and the World Bank (WB) as its central institutions. However, many countries, including European states, see the bank as an opportunity to increase their presence on the rapidly developing Asian market.

**China's Rationales.** The AIIB is China's priority initiative within the Silk Road framework (together with the \$40 billion Silk Road Fund)—the centrepiece of Xi's diplomacy. One of the diplomatic phenomena under Xi is the creation of new economic institutions, such as the BRICS New Development Bank with a reserve fund, new FTAs with big Asian economies (ROK and Australia), and the first of such agreements with European states (Switzerland and Iceland). The shift from bilateral to regional and global initiatives is a novelty, seen as an alternative to the existing Western-led order. China argues that new proposals, especially the AIIB, are based on voluntary, inclusive, transparent, and win-win principles, and play a supplementary role to the current global economic architecture.

There are two main reasons, economic and political, behind Beijing's decision to set up the AIIB. Economic rationales play a basic role. Asia seeks infrastructure indispensable for its development, the cost of which is estimated at \$8 trillion by 2020. The problem lies in the lack of capital, which cannot be covered by existing institutions such as the Japanese-led Asian Development Bank (ADB) or the U.S.-led WB. The infrastructure bottleneck creates barriers in trade flows, investment conditions and revenues. The AIIB is to become a source of funds for infrastructure projects. Asia's development is strictly connected with China's economic growth, which is declining for the first time in two decades. The PRC, which is interested in securing Asian outlet markets and needs stimulus for its economy using its

own reserves, contractors, equipment, technologies and workforce, might be one of the main beneficiaries. Western economies' membership of the AIIB, which mean they may take part in infrastructural projects financed by the bank, might also be a source of know-how, technologies, management philosophies and credibility.

Regarding political rationales, China wants to confirm its power and position, and to express dissatisfaction with the serious delay in reforming global governance architecture, which underestimates the emerging markets' roles in decision making processes (the December 2014 decision of the U.S. Congress not to pass IMF reform probably prompted China to open the AIIB to non-Asian countries). In Xi's diplomacy, the PRC is abandoning its position thus far as a rule-taker. Moreover, the PRC is trying to become a regional leader, to balance the influence of the U.S. and Japan in Asia, and to counter Russia's efforts to reinforce its status in Central Asia, as well as to win the favour of U.S. allies (for example, European countries).

**International Reactions.** Opening the AIIB to non-Asian countries caused international divisions. Some countries have remained reluctant to join the project, given the lack of information on the rules and suspicions regarding its purpose as a tool of realising Chinese strategic goals in Asia. This is especially visible in the stance of the United States. It has not only refused to join the project but also called on its allies (in Europe, but also, among others, Australia and South Korea) to consider carefully before joining the AIIB. Officially, the main concerns focus on meeting international standards regarding transparency of the bank's actions and procurement rules, and the social and environmental dimension of its activity. In fact, the potential success of the AIIB would entail growing Chinese political and economic clout, as well as effectively expanding its "soft power" in Asia, which could be a threat to U.S. influence in the region. The United States' approach is underpinned by Japan. However, Tokyo is considering access to the AIIB, concurrently announcing its own \$110 billion investment plan for infrastructure improvements in Asia. Both countries treat the AIIB mostly as a political project that could hamper the effectiveness of other existing organisations in Asia, especially the WB and the ADB. Only two other countries from the G20, namely Canada and Mexico, have kept their distance from the AIIB and decided not to join the project yet, and are widely perceived to have been influenced by the U.S. standpoint.

However, despite U.S. calls, numerous EU countries expressed an interest in the AIIB. The first step was made by the UK, perceived as the main partner for the U.S. in Europe, which submitted its AIIB application in mid-March. Although this move met with an anxious reaction from the White House, 14 EU states are now "prospective founding members" of the bank. This shows the pragmatic approach to the AIIB by a large number of EU countries, which view it from the perspective of economic opportunities rather than the political dimension. Moreover, the European Commission expressed support for the Member States' participation in the project as a means of seeking business opportunities for European companies. Access to the AIIB was also signalled by the other BRICS states, which see the new Chinese initiative as a measure to enhance the group's cooperation. Although the AIIB could create competition for the other organisations, such as the ADB, the WB or the IMF, there is a degree of readiness among these organisations to cooperate in order to utilise their common potential.

**Poland in the AIIB: More Opportunities than Threats.** Well-prepared negotiations (such as consultations with experts experienced in global financial institutions, such as the IMF) and Beijing's determination to create an effective investment mechanism based on economic efficiency (with efforts to get a triple-A credit rating), make the AIIB attractive for Poland. Moreover, a willingness to be a founding member of the bank is a clear message to China and other Asian countries about a readiness to develop bilateral relations, which is one of Poland's foreign policy goals.

Although the AIIB will probably be focused on projects only in Asia (but China is considering not limiting the geographical scope of the bank's operation), membership could create better conditions for Polish companies to enter the Asian market, and offer an opportunity to take part in infrastructural projects, probably as sub-contractors. This could be beneficial not only in terms of access to investment funds. The AIIB's participation in projects, through its assessment or verification of their relevance, and then through granting loans, could minimise a project's risk significantly, and enhance its credibility, including among contractors, providing guarantees, and so on, thus making a given project more predictable and safer for Polish firms. It might also be the right way to overcome the lack of knowledge about business partners and a particular country, which is one of the main barriers for Polish companies entering non-European markets. What is more, participation in such projects enables Polish enterprises to gain experience in conducting complex projects ("learning by doing") and cooperation with foreign partners, which could be useful in their future activities.

Although negotiations on the AOA have been concluded, the details are not yet in the public domain. Prospective founding members are expected to sign the document by late June. However, before the ratification of the document by Poland, it is worth considering consulting about the bank's rules with the business sector, especially those companies that have experience in tenders conducted by international organisations, for example, the WB. Poland should also assess the implementation of the bank's regulations, in particular regarding opportunities for non-Asian enterprises to participate in regional projects. To take advantage of these chances, Poland should also adopt an active approach after the establishment of the AIIB, including a widespread promotional campaign about the AIIB among Polish companies (conducted by the administration in cooperation with private sector organisations, such as chambers of commerce) and precise monitoring of procurement opportunities (for example, through the Contact Point for International and Foreign Public Procurement now being created).