The Asian Development Bank and the Asian Infrastructure Investment Bank: Conditional Collaboration?

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In the past two years, the creation of the Chinese-sponsored Asian Infrastructure Investment Bank (AIIB) has caused considerable attention in many capitals, particularly in Washington and Tokyo. Some view the establishment of the AIIB as a challenge to the supremacy of the post-World War II Bretton Woods order. Others see it as another symbol of shifting regional power in Asia. Some have deep concerns about the AIIB’s willingness to adhere to international safeguards and open procurement.

The Asian Development Bank (ADB)

Washington and Tokyo were less than thrilled with the creation of the AIIB to say the least. Ironically, this is not the first time the United States questioned the establishment of a Multilateral Development Bank (MDB) in Asia. While the Asian Development Bank has come to be regarded by many as a Japanese-American bank, there were voices in Washington that initially opposed the ADB prior to its creation in 1966. Treasury Secretary C. Douglas Dillon feared that a new regional MDB would act as a financial resource lamprey to a more established institution like the World Bank. He found support for that position in the State Department.

The crunch time came at the 1965 meeting of the United Nations Economic Commission for Asia and the Far East¹ in Wellington. The US delegation had been instructed not to pledge any capital for an Asian regional bank. However, at the last minute, word came from the Johnson White House that the President was not necessarily opposed. This allayed the concerns of some policymakers who believed that White House support greatly improved the possibility of persuading Congress to approve the ADB. With the President’s green light, the United States proceeded to become a capital contributor to the ADB. Now, years later, there is a discussion about whether or not the United States might join the AIIB and, once again, one of the concerns is whether the Hill will acquiesce.

Today, the ADB is the largest of all regional banks. Next year, its equity will triple to around $53 billion from $18 billion with the merger of the hard loan window, known as ordinary capital resources, and the soft loan Asian Development Fund. The latter will become a 100 percent grant operation. This reform is so significant that other MDBs are considering it as a future model.

The two largest shareholders of the ADB are the United States and Japan with roughly 15.7 percent each, followed by China at 6.5 percent, and India at six percent.

¹ Since 1974 known as the United Nations Economic and Social Commission for Asia and the Pacific.
Roughly 70 percent of the development portfolio is focused on five countries, including China. It has not been easy for Capitol Hill to reconcile the fact that China is a main ADB borrower, given that China is the second largest economy in the world with a growing rival development bank and a manned space program.

**Governance Structure of the ADB**

The Manila-based ADB has 67 member countries stretching from the Pacific Islands to western Europe. Its 24-member Board of Directors (BoD) reports to the Board of Governors. The US Governor is the Secretary of the Treasury. The BoD oversees the strategic direction of the Bank and approves the budget, policies, and all projects. During my five-plus years as Ambassador at the ADB, I can recall having many discussions with regional bilateral US Ambassadors to see whether we could get the ADB to provide support for various projects or make sure we supported certain projects at the Board level in the countries where they represented US interests.

The Board is based at ADB Headquarters in Manila and has the feel of a legislature. Indeed, I sometimes refer to it as the ADB Senate. Serving on the Board often reminded me of my days as a Congressional staffer back in the 1970s. This sense was even stronger after I became Dean of the Board, the first American in the history of the ADB.

The “administration” of the Bank also feels a little like the US government. The President, who has always been a Japanese national from Japan’s Ministry of Treasury, is the ADB’s “POTUS.” The six Vice Presidents, who are regionally determined and always include a US citizen, are similar to cabinet officers. Below them are Directors General who are akin to Assistant Secretaries and from there the bureaucracy descends in a structure not unlike what we are used to in Washington. They are all answerable to the country stakeholders on the BoD. The Bank has its equivalent of “hearings” where policies or projects can be questioned and tweaked by Board members. By the time something gets through to a formal Board meeting chaired by the ADB President, a little tweaking can still occur but the passage of the project or policy is assured.

Three countries on the Board represent only one capital: Japan has one Executive Director (ED), as does China, and the United States. Since 1966, the United States ED is an Ambassador and usually the only one on the BoD to hold that rank. In fact, of all the MDBs of which the United States is a member, only the ED at the ADB is Ambassador rank. The other ADB country stakeholders represent constituencies of between five and ten countries both from the developed and developing world.

Over the years, US priorities at the ADB have focused on promoting accountability, improving transparency, and ensuring that ADB resources are used effectively and

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2 The 24 Board members include 12 Executive Directors and 12 Alternate Executive Directors. The latter usually act as Deputy Chiefs of Mission.

3 As *The Ambassadors REVIEW* went to press, India also had an Ambassador rank ED on the Board of Directors.
efficiently, as well as encouraging support for countries important to US interests. These are goals that to various degrees are usually consistent with other member countries.

The Asian Infrastructure Investment Bank

Chinese President Xi Jinping announced the AIIB initiative in October 2013 during a visit to Southeast Asia. The factors that led to the announcement are no doubt multifaceted. Some suspected a commercial rationale to push for more Chinese market opportunities. Japan encountered the same suspicion when the ADB was created. Others speculated about larger geopolitical objectives and wondered about what is perceived as tighter control of the governance structures by Beijing. To my mind, an important element was the feeling by the Chinese that, despite their rise as a great power and emergence as the second largest economy in the world, they had not been sufficiently rewarded with capital share and voting power rights in the World Bank and the ADB. In other words, the Chinese felt they were being denied an opportunity participate at their weight level.

Initially, little attention was paid to the AIIB. Some even thought that it might not get off the ground. By the time it was apparent that the AIIB was here to stay, there wasn’t too much any nation could do about it…whether they wished it good will or not.

The main concerns about the AIIB were and remain related to governance and safeguard policies. In fact, contrary to some media reports, the US position was not to discourage other countries from joining the AIIB but to say—“if we were asked”—these are the questions we would raise with Beijing. And they basically related to what I cited above.

The political to and fro surrounding the creation of the AIIB was intense, as some countries worried about either Washington’s reaction or Tokyo’s or both. In October 2014, 22 Asian countries met in Beijing to sign a Memorandum of Understanding to establish the AIIB; rapid progress in creating the bank ensued. The big break was when the United Kingdom announced its intention to join the AIIB—not necessarily pleasing other European nations who felt London had jumped the gun. However, shortly thereafter other Europeans signed up. Japan and the United States have not. At this point in time, it is difficult to see a near-term chance of their joining despite many voices in Tokyo and Washington advocating just that.

To the AIIB’s credit, it seems to have heard the concerns about safeguard policy and has engaged former officials from other MDBs to help craft practical policies—or at least deploy the right buzz words. They have an emphasis on transparency, accountability, openness, and independence. As the new President and a former ADB Vice President Jin Liqun has said, the AIIB will be “lean, clean, and green.” The AIIB Secretariat plans to have 700 personnel, which is substantially less than the 2,000 employees at the ADB headquarters in Manila. It is too early to tell whether or not the AIIB will adhere to these precepts, as it only opened its doors in January of this year. The proof will be in the pudding, but there are already good signs. I am encouraged at the extent to which the AIIB has reached out even before opening for business to consult with the other MDBs such as
the ADB and World Bank. Already AIIB officials are studying the feasibility of co-financing 18 projects proposed by the World Bank and eight submitted by the ADB.

Many of these could be approved by the AIIB Board as early as this summer. The ADB has made it clear that there will be no co-financing with the AIIB until ADB safeguards are accepted, and this does not seem to have given the AIIB any pause.

The AIIB whose current membership counts 57 countries will have a different emphasis than the ADB, with its expanded capital base moving into new areas such as education and healthcare. This will be a small step away from the ADB’s comfort zone of infrastructure; some have said that ADB really stands for “Asian Dams and Bridges.” That said, the AIIB clearly looks to remain in the infrastructure and connectivity space.

One area of governance that many have viewed with discomfort is the AIIB’s insistence on a non-resident Board of 12 members. A resident Board is viewed, apparently, as an unnecessary cost. I would argue quite the opposite in terms of conducting efficient oversight. When I served on the ADB Board and I or my staff had concerns, arranging a face-to-face meeting with management could be done in minutes. Emails and long distance phone calls were insufficient. For sure, smaller MDBs like the Caribbean Development Bank with a capital base of around $3 billion can handle this. But it’s hard to see how a mega-bank like what the AIIB envisions will be able to sustain such fragile governance. It will be interesting to see how nongovernmental organizations react to not having Board-level points of contact at the AIIB headquarters year round and how that will manifest itself in member country capitals. Pretty quickly, there could be calls to allow for Board residency.

Despite frequent denials, MDBs are fundamentally political institutions. It is difficult to make decisions for Vice Presidents based purely on a merit basis at that level. It’s hard to see how political factors could ever be totally excluded. This is true at the ADB. And the AIIB got its first taste of this when a European government assumed it would receive one of the two VP slots that Europe was to get and it wound up going to another. That capital thought it looked like a classic bait and switch. And already friction ensued.

I see many potentially positive outcomes with the AIIB. Surely the infrastructure demands in developing Asia far outstrip what the ADB and World Bank can provide so another player, governed correctly, should be a welcome addition. At the end of the day it will have to be private capital that provides the lion’s share of the developmental and infrastructure tools. But the MDBs can send signals of stability and safer investment returns to potential private investors…sort of “good housekeeping seals” if you will.

Conditional Collaboration?

To return to the title of this article, will collaboration between the ADB and AIIB be driven by governance conditionality?

In the beginning, at least, my sense is yes, as both institutions develop a better sense of how the AIIB’s governance model will uphold adequate safeguards that are vital
to the ADB and, for that matter, the World Bank. It is critically important for all MDBs to coordinate and avoid falling all over each other. It won’t happen all the time but it should be minimized. There will not be total agreement all the time. There may be policy preferences that are different. I suspect that the ADB will have a stricter code on environmental issues than will the AIIB.

Healthy competition between the two banks is not a bad thing and can act as a catalyst for important reforms in each institution. I think the existence of the AIIB will push the ADB to widen and deepen reforms, which many stakeholders have advocated for years. Competition can enhance that. It can act to improve the effectiveness of safeguard regimes and the projects themselves. In the end, we will all benefit.