

**THE ASIAN INFRASTRUCTURE
INVESTMENT BANK:
OVERVIEW AND OPERATIONS**

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Executive Summary

1. Infrastructure development for improving regional physical connectivity forms a central part of China's "One Belt, One Road" (OBOR) initiatives backed by the Asian Infrastructure Investment Bank (AIIB).
2. China has played a dominant role in the establishment of the AIIB and is a key player in its operations. It has contributed US\$29.78 billion to the bank and holds a total voting share of over 26%. The AIIB's headquarters is in Beijing.
3. The establishment of the AIIB demonstrates that China has cast aside its role as a passive participant in the regional and international financial system and emerged as a rule setter for the regional financial system.
4. Compared to other established multilateral financial institutions (MFIs) such as the World Bank and Asian Development Bank (ADB), the AIIB is still in its nascent stage and will primarily focus on funding infrastructure development and inter-regional connectivity related projects in Asia.
5. Unlike other major MFIs, the AIIB has no resident Board of Directors. Its day-to-day operations, management and policy implementation will be overseen by its president and senior executives.
6. In practice, the internal process of lending review, risk assessment and approval will be streamlined to allow the AIIB to operate more efficiently by eliminating red tape.
7. The AIIB's first project will be co-financed with the ADB. In May 2016, the AIIB and ADB signed a MOU (Memorandum of Understanding) to jointly finance the 64-kilometre long M4 highway project in Pakistan.

8. Pakistan and Indonesia are likely to become important clients of the bank, two key partners for China's OBOR initiatives. AIIB operations will prioritise Southeast, South and Central Asia.
9. AIIB operations will largely overlap those of the existing MFIs, making some form of competition inevitable, especially in transport and other infrastructure lending.
10. Nevertheless, the infrastructure market in the region is so enormous that collaboration and cooperation between existing MFIs and newly established multilateral development institutions are possible.
11. China is aware of the importance of cooperation to benefit from the former's experiences, expertise and knowledge; disruptive competition over infrastructure development is hence unlikely.
12. AIIB loans will provide new sources of infrastructure funding and contribute a more competitive operating environment among the MFIs.