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„Do Chinese Led Institutions Complement or Compete with Already Existing Bretton Woods Institutions in Regard to Economic Governance?"

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Abstract

China’s increasing power and growing influence over global governance is now an undeniable reality. Although there is almost complete consensus regarding the growing power of China in world politics, there is ongoing debate about what this growing influence means, how we should interpret it and how we should cope with it. This debate has gained momentum particularly after the creation of Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB) by China. In this context, this paper aims to analyze whether Chinese led institutions compete or complement already existing institutions in regard to economic governance. It intends to answer this question by looking at governance structures, operational procedures and actual projects of the AIIB and ADB. Furthermore, they will be compared to Asian Development Bank and World Bank in order to find if the newly established ones significantly diverge from the others in regard to their governance structures, operational procedures and actual operations.

Key words: Global economic governance, Asian Infrastructure Investment Bank, New Development Bank

Abstract (deutsch)

Die wachsende Macht und der zunehmende Einfluss Chinas auf globale Governance sind mittlerweile unleugbare Realität. Obwohl praktisch allgemeiner Konsens über die wachsende Macht Chinas in der Weltpolitik besteht, geht die Debatte darüber weiter, was dieser zunehmende Einfluss bedeutet, wie er zu interpretieren und wie damit umzugehen ist. Diese Debatte hat insbesondere Fahrt aufgenommen, als China die Asian Infrastructure and Investment Bank (AIIB) und die New Development Bank gründete. In diesem Kontext ist es das Ziel der Arbeit zu analysieren, ob die von China geführten Institutionen bereits bestehende Institutionen im Hinblick auf wirtschaftliche Governance konkurrieren oder aber ergänzen. Die Antwort auf diese Frage soll durch die Untersuchung der Governancestrukturen, der operativen Vorgangsweisen und aktueller Projekte von AIIB und ADB gegeben werden. AIIB und ADB werden ferner mit der Asian Development Bank und der Weltbank verglichen, um herauszufinden, ob die neugeschaffenen Institutionen sich in Hinblick auf Governancestrukturen, operative Vorgangsweisen und aktuelle Projekte signifikant von den anderen unterscheiden.

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1. INTRODUCTION

China's increasing power and growing influence over global governance[1] is now an undeniable reality. As China becomes economically more powerful, it seeks a larger voice and representation within the regional and global multilateral institutions. Although it has been increasing its effect and presence in wide range of areas, especially its influence on global economic governance attracts the attention of scholars. The rise of China raises profound questions in terms of the future of global economic governance. That is why this paper will particularly focus on China and the implications of its growing power on global economic governance.

Before looking into developments in global economic governance, it will be useful to look into China's overall relations with the international institutions. Although today we talk about increasing interaction of China with the international institutions, it was not at the same level since its establishment (Wang, 2000).

From the founding of the People's Republic of China (PRC) in 1949 until the opening of its economy to the world markets in 1970s, China was an outsider to the international system. Hongying Wang (2000) claims that China was considering international institutions as instruments of imperialism and hegemonism at that time. For that reason, China decided to isolate itself from the system. But this situation has changed and China's degree of participation within international organizations increased with the start of a new era when Deng Xiaoping opened China's economy in the late 1970s. With the start of that period, China has joined many international institutions such as the International Monetary Fund, World Bank, and World Trade Organization. Furthermore, Beijing has also become one of the facilitators of regional multilateralism (Hachigian, Chen & Beddor, 2009). For instance, China took an active part in the creations of the Shanghai Cooperation Organization in 2001 and the first BRIC[2] summit in 2006. According to Kuik (2015) and Villafranca (2016), China now seeks even greater interaction with the international community and initiatives like

[1]The term global governance refers to collective management of common transnational or global problems in the absence of overarching political authority. These problems cannot be dealt with at nation state level, by individual states acting alone. It encompasses the institutions, policies, norms, procedures and initiatives through which states and their citizens try to bring more predictability, stability, and order to transnational challenges. Retrieved from: http://www.un.org/en/development/desa/policy/cdp/cdp_publications/2014cdppolicynote.pdf

[2] BRIC is the acronym of Brazil, Russia, India and China. Since 2010, South Africa also participates in the summits. Therefore, the acronym changed into BRICS.

Xiangshan Forum, Asian Investment Infrastructure Bank (AIIB), New Development Bank (NDB), the Silk Road Economic Belt and the Maritime Silk Road are just some of the crucial signs of it.

However, participation is only one of the indicators of China's broadening presence. The role China plays within these institutions is also important for understanding the scope of its involvement. Although China has remained mostly passive in the multilateral economic organizations from the start of its membership, it has been changing its stance in recent years and taking a more active role due to its strengthening economy (Nicolas, 2016).

Overall, China's transformation on the international stage has been profound, from an outsider of the system to the active participant in global institutions and sometimes even a constructive player. The AIIB and NDB can be shown as good examples of that constructive role played by China. Even though multilateral development banks (MDB) will be the main focus of that paper, it should be noted that they are not the only means that China uses to foster its involvement in economic globalization. The One Belt One Road (OBOR) initiative which aims to promote interconnectivity across the Eurasian continent and connect China first with its neighbors and then the rest of the Asia and Europe can be shown as one of these alternative tools.

As it can be already seen from the above-mentioned instances, China is strengthening its position within the international system. It is doing that at a time of power shift in the international system from industrialized countries to the emerging economies (Shambaugh, 1996). Since 1990, the share of world gross domestic product (GDP) (based on PPP[3]) of G7 countries has decreased from 50.84% to 30.11%. On the other hand, emerging markets and developing countries' share of world gross domestic product has grown from 36.39 percent to 59.25 percent (IMF, 2018). This is a clear indication of that power shift.

In parallel to this power shift, developing economies are asking more and more representation within the existing institutions, trying to increase their voices and continuously expressing their discontents with the governance structures of the existing MDBs. Consequently, China, together with developing countries including Brazil and India, has been

[3]Purchasing Power Parity (PPP) weights are individual countries' share of total World gross domestic product at purchasing power parties. Purchasing Power Parity is a theory which relates changes in the nominal Exchange rate between two countries to changes in the countries' price levels.

trying for years to reform the Bretton Woods institutions[4]. Particularly after the 2008 economic crisis which revealed the inadequacies of the global economic system, G20 countries raised their voices and the process of reform has been escalated (IMF, 2010).

Although these attempts to reform have led to some changes in institutional structures of these institutions, they mostly remained narrow and did not lead to any major power shifts (Strand & Retzl, 2016; Reisen, 2015). Despite recent institutional adjustments in the WB, the influence of China, Brazil, and other rising powers remain small compared to that of the United States, Japan, and (collectively) European Union (EU) members (Strand, Flores & Trevathan, 2016). The United States and developed European countries also play dominant roles at the IMF. On the other hand, Japan takes the lead at Asian Development Bank (ADB) with U.S. support. Despite China has a bigger economy than Japan in terms of gross domestic product[5], Japan's voting share is more than twice of China's in the ADB. Japan and the US hold 15.6% voting shares separately in the ADB. In return, China has only 6.4% of voting shares (ADB, 2017).

Therefore it would not be false to claim that the growing Chinese economic power and its global influence are not proportionately reflected within the existing international institutions. The current picture does not reflect the realities of the world we live in. The United States and its allies still control these institutions thanks to their structural powers within them (Valeriani, 2016). Voting share, capital contribution and representation amongst staff and management within these institutions can be shown as primary signs of their control.

In that regard, the failure of creating enough room for the effective participation of developing countries in global governance institutions seems to be one of the major reasons why China together with other developing countries have started promoting their own institutions, namely the New Development Bank and the Asian Infrastructure Investment Bank.

Establishment of these institutions has added up to the current debate. Although there is almost complete consensus regarding to the growing power of China in world politics, there is an ongoing debate about how we should interpret it and how it should be dealt with. This

[4] The Bretton Woods Institutions are the World Bank, and the International Monetary Fund (IMF). Retrieved from https://www.brettonwoodsproject.org/2005/08/art-320747/

[5] Thanks to its double digit economic growth between 2003 and 2010, China has took over Japan's position as second largest economy in the world economy. Retrieved from http://statisticstimes.com/economy/projected-world-gdp-ranking.php

discussion has gained momentum particularly after the creations of the Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB)[6] by China. However, the question that should be asked is why this controversy has gained acceleration with the establishments of the AIIB and the NDB, even though there are already other multilateral development banks which are not operating under the direct control[7] of the US and its allies like Islamic Development Bank (IsDB).

Even though there are development banks which are not under direct control of the western powers, Kampffmeyer (2000) considers them as regional copies of the World Bank (WB)

In fact, they do not only have resembling governance structures but also follow similar practices when it comes to development financing. In addition, they have been collaborating in financing various development projects (Kapur, Lewis, & Webb, 2011). Based on these evaluations, we can claim that establishments of the AIIB and NDB raised questions in the international arena and have led to a debate around them due to the facts that these are the first major Chinese led multilateral development banks and the international community does not know about the real motivations behind their installations. That is why this debate is much more intense than the previous discussions surrounding the establishments of the other development banks. Consequently, their creations have led to speculations on the sustainability of existing global financial institutions such as the World Bank and the IMF. In that context, many authors ask similar questions like ‘‘what are the intentions of these banks?’’, ‘‘what will be their implications on the global financial system?’’ or ‘‘will they play by the established rules or try to resist and even change them?’’(Strand et al., 2016).

These questions are, indeed, challenging ones and the answers vary. While many scholars are optimistic regarding their intentions and consider them as complementary mechanisms, others look at the NDB and AIIB as direct challenges to the Bretton Woods institutions and global financial order led by the World Bank and International Monetary Fund (IMF). They are worried that China may use these institutions as a tool to undermine the Bretton Woods system.

[6] NDB is actually joint initiative of BRICS countries (Brazil, Russia, India, China and South Africa). However it will be labeled as Chinese led bank throughout the paper due to immense effect of China on the Bank (location of headquarter, Chinese economic power in comparison to other members etc.).
[7] As voting shares and structural powers of countries

The two banks have created their basic structures, financed their first investment projects, and interacted with other multilateral and national development banks among the heated discussions surrounding their creations. Since the NDB and the AIIB are officially established and have begun to operate, it is possible to better analyze what benefits and risks they might bring to global economic governance and international cooperation on development. In order to assess the benefits and risks posed by the NDB and the AIIB for the existing institutions and to the system in general, governance structures of the banks, their projects, and implementation practices will be analyzed in a detailed way.

In this context, this paper aims to find an answer to the vital question in the literature and contribute to the ongoing debate. The research question of this paper is ‘‘whether Chinese led institutions complement or compete with already existing Bretton Woods institutions in regard to economic governance?’’ Main expectation of this paper is that newly established institutions will play complementary roles in the short term. However, they are expected to have a fundamental pressure on the established institutions in the long term due to the innovations they bring. In order to analyze and find an answer to the research question of that paper, mainly financing projects and governance structures of the banks will be analyzed in-depth and will be compared with other banks. In the end, it is expected to reveal if the newly established Asian Infrastructure Investment Bank and New Development Bank significantly diverge from the Asian Development Bank and the World Bank in regard to their governance structures, operational procedures and actual operations.

The first section provides a review of the literature on Chinese led multilateral development banks and their future implications on the existing MDBs and the global economic governance. Results of various studies are given in a comparative manner in this part. Then, the second section moves on to describe research design and methodological background of this study. This section is followed by a general overview of the selected banks. After providing general information about the banks, the next three chapters will respectively analyze governance structures, projects and actual operations of the banks. Lastly, a general interpretation of the study is made in the conclusion chapter.

2. STATE OF ART

Discussions of the important question of whether the AIIB and the NDB are political move aiming to redesign the existing global economic governance structure have flourished starting from the announcement of the banks. Although these institutions already came into existence and started operating, the disputes on their motivations are far from vanishing. These discussions will be comprehensively analyzed under this section. By doing that, it is expected to reflect the main ideas from various standpoints and understand them before conducting an analysis of the banks.

Despite the growing influence of China in global governance and more specifically in the global economic governance, future implications of its growing power were underestimated or overlooked in the literature until recently. For instance, Charles Kupchan (2002) describes Europe as the only possible challenge to US domination without taking the future role of Asia in consideration. In the same way, Ivo Daalder and James Lindsay (2003) do not include the potential impacts of China and India in their analyses. Moreover, Zbigniew Brzezinski argues in 2004 that China is very poor in comparison to the US and forms no political challenge (as cited in Messner and Humphrey, 2006, p.2). However, this situation has changed and the authors started to pay more attention to the China factor. Quite recently, considerable attention has been paid to China's rise and implications of the establishments the AIIB and the NDB. The term ''Beijing Consensus'' which was introduced by Ramo in 2004 is one of the expressions of this. It suggests that China offers an alternative vision to the development understanding of the Western countries and challenges the principles of Washington Consensus which form the basis of Bretton Woods institutions. As China increases its power in the system, these discussions attract more and more attention by scholars. In that regard, the establishment of the AIIB and NDB added up to the discussion on the future implications of increasing Chinese power.

On the one hand, some scholars consider the creation of these newly established institutions as a welcoming move and a positive addition to the system. Their main claim is that these institutions do not compete with the existing institutions and they even supplement them due to their functions. On the other hand, others consider them as a direct rival to the

Western-dominated institutions. Their assertion is that the purpose of this challenge is to change the rules of international lending, international trade and even rewrite them.

When the literature is analyzed, it can be seen that these discussions mostly go around several main topics. In order to better reflect the argumentations of both sides, these debates will be grouped under these major themes. These subjects will be on: the overall rise of China within the system, infrastructure needs of Asia, the dissatisfaction of the developing countries with the existing international financial institutions and China's foreign policy objectives/national interests of the developing countries.

2.1. China's Rise within the System: Complementary or Competitive?

China's massive transformation on the international stage from an outsider of the system to the active participant is already explained in detail in the previous chapter. China is now a significant actor in the international system. It is involved in the regions and on the issues that were only peripheral to its interests. In parallel to its increasing power and growing importance, its engagement with the international institutions is also deepened. Analyses of Kent (2007) are aligned with the findings of this paper on that topic. He gives China's increasing compliance with IMF rules, its active engagement in policy discussions and membership in the World Trade Organization (WTO) as proofs of that claim. Kent further adds that even though China was an only passive participant and rule taker in the international organizations at the beginning of its membership, type of its involvement has also transformed in time from a passive one to an active one together with the rise of its power. The reasons of this passive role that China played during the initial phase of its interaction with the international organizations are well demonstrated in the work of Hongying Wang and Rosenau (2009). They find this passive role understandable as China was relatively weak when it first opened its economy to the international market and changed its stance towards multilateral institutions in the 1970s. Secondly, the Chinese government lacked the knowledge of the existing rules and mechanisms of international organizations. It basically means that China did not have necessary knowledge to play the game by the rules at the beginning. Therefore, China attempted to benefit from these institutions as much as possible while increasing its power, status and gaining knowledge rather than seeking to shape them. Kent concludes that while China is becoming more active within the international system and abiding by its rules, China's actions and preferences have been changed and shaped by its interactions with these international institutions and their rules. However, John Mearsheimer and Brzezinski’s (2005) expectations are different. They predict that as China’s power grows, it is more likely that China will resist international rules and try to rewrite them. Alastair Iain Johnston (2003) is against this assumption and he claims the opposite. His claim supports Kent’s conclusion. According to him, the more China integrates into the international arena, the more compliant it becomes with the international rules and norms. Ikenberry and Lim (2017) also side with Kent and Johnston on that issue. They assert that the current international institutions socialize China and change its preferences. For them, the liberal order has the capability of transforming assertive and even revisionist states into stakeholders of the system. However, Lincoln R. Hines (2016) is not content with this socialization theory. He asks ‘‘why rising powers create their own institutions if they are being accommodated by existing international architecture?’’.

Feigenbaum (2017) agrees with Kent regarding the change in the form of China’s participation. Despite he admits the disruptive role of China within the system; he claims that China is not a revolutionary power. For him, China just seeks some revisions in the system due to its increasing economic and political powers. In a similar fashion, Nicholas Lardy (2009), a leading expert on China’s economy, defends that China plays the role of a status quo power in most of the cases. As Kent does, Lardy also provides examples of broadening Chinese presence in the system for supporting his claim. The phenomenon of the rise of China within the system is also examined by another study (Nicolas, 2016). In contrary to Lardy and Kent, Nicolas underlines that China’s approach towards the international system has become revisionist from being simple reformist one that does not fundamentally challenge the defining characteristics of the current system. This change of the stance occurred in parallel to China’s economic takeoff and with the establishment of new institutions. In that sense, Nicolas thinks that China is not only becoming assertive within the system but also revisionist.

Like many others, Balazs Ujvari (2015) also emphasizes the undergoing transformation in the global economic governance led by China and other emerging economies. He contends that this transformation is multilayered and takes different forms such as reforming existing institutions and designing parallel ones. For him, these transformative initiatives are the result of aspirations of developing countries to counter the traditional economic governance institutions and the system itself. In contrary to Ujvari, Zhao (2010) claims that China’s participation in international institutions and the use of diplomacy are just signs of its preference for using soft power. From his point of view, China does not try to put an end to the current global order but rather seeks to enhance its own sovereignty and reinforce its legitimacy both in the domestic and international arenas by taking part in the existing system more actively.

As it can be seen, there is no consensus in the literature on how to interpret China's growing role. Both sides of the arguments agree on the fact that there is a transformation in the system. However, while one side claims that China is pursuing revisionist policies aiming to change the fundamental characteristics of the existing system, others assert that China plays the game by the rules. This paper will try to contribute to the ongoing controversies by analyzing and comparing Chinese led institutions and Bretton Woods institutions. By doing that, it is expected to reveal the main features of the banks and their possible impacts on the current system.

2.2. **Increasing Infrastructure Needs of Asia: An Excuse or Reality?**

The immense infrastructure need of Asia is another major reason behind the establishments of the AIIB and NDB for many scholars. This need is also revealed by the report of the ADB in 2009. It states that Asia will need to invest $8 trillion in national infrastructure and an additional $290 billion in regional infrastructure projects between 2010 and 2020. The WB and ADB are far from supplying these numbers due to their limited budgets. The ADB has $165 billion in capital, while the World Bank has subscribed capital of $223 billion. In practice, according to Steinbock (2015), the WB can only loan some $50 billion per year on infrastructure projects in different parts of the world due to diverse policy areas it focuses on (as cited in Declercq, 2015). This infrastructure gap is not only the result of growing demand to the infrastructure but also the consequence of declining supply of the financing by major multilateral development banks. Even though the World Bank used to orient almost 70% of its lending to infrastructure projects in the period after the World War II, this has shrunk to 20% level due to the change in the bank's focus (Humphrey, 2015). In a similar fashion, the share of infrastructure in Asian Development Bank's total investment has also decreased, though this decline is less severe than World Bank's. The WB and the ADB are undoubtedly important actors in infrastructure financing but they lack the financial resources to meet the region's needs. What the WB and the ADB can actually finance is only limited and not even near to what Asia needs in total (Bhattacharya, Romani & Stern, 2012).

In parallel to this financing gap, supplementing function of recently established banks is in fact emphasized by their Articles of Agreements. The Articles of Agreement of the AIIB states that it will complement the existing multilateral development banks, to promote sustained and stable growth in Asia (Articles of Agreements of the AIIB, 2015). Similarly, NDB's articles of agreement (2014) maintains that "The Bank shall mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development" (article 1).

Nevertheless, the US continues to maintain the cautious approach that she took when the AIIB was first introduced to the public. Despite the acceptance of the infrastructure needs, the US viewed AIIB more as a challenge to the existing Bretton Woods institutions, than a complement. In this process, the US even tried to dissuade its allies from joining the bank and tried to isolate it. This reaction of the US is regarded by Tobias Harris (2015) as the US being more interested in keeping the lead in writing the rules of the international financial system than bringing solutions to the problems like infrastructure. He gives Barack Obama's speech to support his argument. In his State of the Union address in 2015, Obama said, "But as we speak, China wants to write the rules for the world's fastest-growing region. That would put our workers and our businesses at a disadvantage. Why would we let that happen? We should write those rules." (The White House, Office of the Press Secretary, 2015). Obama's speech shows the concerns of U.S. government about these new institutions. If they will not play by rules set by the WB and other MDBs, they may undermine the existing standards, goals, and values of the traditional MDBs. This concern is actually not only an illusion. Even though Chinese led institutions continuously emphasize their complementing functions, some bank officials also claim that they will also build next practices aside from using the best practices (Yixiu, 2017). This statement of former US president Barack Obama is a clear indication of the fact that even though the AIIB and NDB are economic institutions, discussions surrounding their establishments are far from being only economic. They are also political. These two dimensions often intersect and acknowledging this intersection is important.

In light of these arguments, the necessity of huge infrastructure investment in the developing world and the present infrastructure financing gap are widely recognized in the literature and deployed by several researchers. Authors who consider Chinese led institutions as complementary frequently use this argument in order to support their theses. Advocates of that view think that new initiations will not benefit only China but also other countries in which these projects take place. Additionally, these projects will likely make way for spillover which will help even the firms and people outside of those countries. Moreover, they find value in China's willingness to play a more responsible role through the establishment of the AIIB and the NDB since it will provide international public goods in the form of infrastructure development.

Andrew Elek (2014) is one of these authors who welcome the AIIB initiative. He considers the participation of western powers such as the United Kingdom, France, and Germany to the AIIB significant as he thinks that they will help to maximize the bank's potential. He asserts that the AIIB is meant to supplement, not to replace the World Bank and its regional copies like ADB, Inter-American Development Bank and European Bank for Reconstruction and Development (EBRD). Xiao Ren (2016) supports Andrew Elek's arguments. He argues convincingly that the new bank aims to supplement the WB and the ADB in narrowing the gap between the infrastructure demand and supply in Asia.

However, Nicolas' (2016) claims are in controversy with the findings of Elek and Ren. Even though he accepts the AIIB's purpose as financing infrastructure projects, he asserts that China will use the bank in order to extend its influence in the region and beyond due to its dominant role within the institution. According to Nicolas, whatever the Bank's purpose is, China will undoubtedly use it as a tool to enhance its influence and reach its political, economic and cultural aims. Therefore, he perceives the AIIB as a competitor to the ADB and the NDB as a rival of the WB. However, many respond to concerns over the perceived dominance of China within the AIIB by showing the existence of European powers within the institution. Dollar (2015) says that it is not so easy for China to directly control the AIIB to further its interests since a diverse group of countries are members. He asserts that memberships of the western powers including the UK, Germany, France, and Australia will work as a control mechanism within the institution and balance the Chinese dominance.

Bhattacharya (2012) and Kawai (2015) indicate that a new development bank dedicated to infrastructure and sustainable development will play an important role in solving the financing problems and overcoming massive infrastructure gap. They both think that the AIIB will be complementary to the existing institutions. Likewise, bringing additional investment in infrastructure development is also the most substantial benefit of the AIIB and the NDB for Hongying Wang (2017). After mentioning the variety of development areas that the World Bank finance, he claims that the NDB and the AIIB can play a complementary role by focusing only on the infrastructure development.

There is no doubt that the WB and the ADB cannot finance all development areas at the same time and need the support of the other multilateral development banks. The ADB reports proving the actual gap in infrastructure financing are also reality. Nevertheless, these do not result in scholars agreeing on whether the banks are complementary or rival. In this regard, there is also a gap in the literature which this paper aims to fill.

2.3. Dissatisfaction of Developing Countries with the traditional institutions: Aiming to Bring Revolutionary or just a Modest Change

Toward the end of World War II, allied countries gathered at Bretton Woods to create a new international financial order. So-called Bretton Woods institutions, namely the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), were created with that purpose. Since the establishment of the Bretton Woods institutions after World War II, and especially after the collapse of the Soviet Union, the international economic world order has been dominated by the United States and its allies (Yilmaz, 2010). This unilateral dominance was also backed by US military and political powers (Layne, 2009). With their installations at the Bretton Woods conference in 1944, the US financed one-third of the institutions and gained the most voting shares (Gianaris, 1990). Naturally, this was only the reflection of the political and economic realities of the time. Most of today's rising powers, including China, were not present at the creation of the key global economic institutions namely, the IMF and the World Bank.

However, today's realities are not the same as 1944's. The world economy has been increasingly experiencing change, especially in the last ten years. The economic weight has been shifting from the West towards the East. The collective share of developed countries in the world economy was 50.13% in 2008. But this has continuously decreased until today and their economies form 40.75% of the total world economy today. In parallel to this decrease, emerging economies' share has steadily increased within the same period. Furthermore, these patterns are expected to continue according to calculations of the IMF.[8] Despite this shift, the US and its allies were successful in keeping their powers in so-called Bretton Woods institutions. Under these conditions, as early as 1999, Dai Xianglong argued that the international financial system is no longer capable of reflecting existing power balances and therefore should be reformed (International Monetary Fund, 1999). In that context,

[8] Idb.

developing countries have been criticizing the World Bank, the IMF, and the other traditional regional multilateral institutions for under-representing them.

Especially after the 2008 economic crisis, developing G20 countries were able to leverage their strengthening economic weight to revise the voting shares in leading international financial institutions. They agreed to make a shift of at least 5 percent of the voting power from developed to developing countries in the IMF and at least 3 percent in the World Bank (Vestergaard & Wade 2015). By adjusting voting shares, their purpose was to have a global financial system which better reflects the realities of today's world. In December 2010, the executive boards of the organizations decided to implement a set of reforms on their internal governance which aims to shift a little bit more than 6% of the voting shares from developed countries to developing economies. Together with earlier reforms, this totaled to 9% (Nelson & Weiss 2015)**.** Former IMF managing director Dominique Strauss-Kahn even said "*This historic agreement is the most fundamental governance overhaul in the Fund's 65-year history and the biggest ever shift of influence in favor of emerging market and developing countries to recognize their growing role in the global economy*," when he was commenting on the reforms (International Monetary Fund, 2010). The reform package revised quotas and voting shares and did some changes in the governance structure of the IMF. In the same manner, similar reforms have been projected in the World Bank.

Yet, the reform attempts were blocked by the US Congress for a long time and could not be put into implementation until the beginning of 2016 even though they were decided in 2010. This has led to further frustration among developing countries. Additionally, this caused a loss of credibility and legitimacy of the Bretton Woods institutions in the eyes of emerging economies.[9] That is why this topic is given even more attention in the literature. Mike Callaghan and Paul Hubbard (2016) claim that even if the reforms to the IMF and the WB were implemented in a timely manner, China would still initiate the AIIB project. It cannot be known whether this would be the case or not, however, it is true that many countries, especially emerging economies, are still underrepresented with respect to the sizes of their economies despite the reforms (World Bank Development Committee, 2015). For instance, even though China has a bigger economy than Japan based on GDP calculations, Japan's voting power within the ADB is two times bigger than China's.

[9] Yi, 2015

The share of voting powers of the countries within the IMF and WB in 2014 (before the actual implementation of the reforms) can be seen in Table 1. The fact that these structures no longer reflect the contemporary global economic or political realities can be best shown with an example. Until the 2010 reforms became effective in 2016, France was holding a bigger percentage of voting shares than China due to the variables used in the formula in calculating the voting shares of each country.

Table 1.

TABLE 1 COMPARISON OF GROSS DOMESTIC PRODUCT (GDP) AND VOTING RIGHTS IN SELECTED IFIs

Country	GDP as % of world (2014)	% vote in IMF	% vote in World Bank IBRD*
US	22.37	16.74	15.85
China	13.30	3.81	4.42
Japan	5.91	6.23	6.84
Germany	4.95	5.81	4.00
UK	3.78	4.29	3.75
France	3.63	4.29	3.75
Brazil	3.01	1.72	2.24
Italy	2.75	3.16	2.64
India	2.65	2.34	2.91
Russia	2.39	2.39	2.77
ROW **	35.25	49.22	50.83

* International Bank for Reconstruction and Development
** rest of the world

Source: Bertelsmann-Scott, Prinsloo, Sidiropoulos, Wentworth & Wood (2016)

Although today, China, India, and Brazil are among the top ten countries in terms of quota shares, these reform packages were far from solving the imbalances in the system. Voting share of a country is directly related to its voice within the institutions and forms an important part of the discussion. However, the structural imbalances are not only about the voting shares. Another crucial element of this conversation is based on the leadership posts within the institutions. The top posts in the IMF, World Bank, and ADB are traditionally held by, respectively, a European, American, and Japanese (Xiao Ren, 2016). Unequal representation in the executive board's composition can be further added to that discussion.

In the light of these debates, it can be claimed that the desire of developing countries to reform the current system is one of the underlying factors behind the establishments of the

AIIB and the NDB. This topic also draws the attention of many scholars and is discussed thoroughly in the literature. Although scholars agree and accept this as one of the reasons behind the establishments of the NDB and the AIIB, there is no consensus among them about the future implications of these initiatives. For instance, Yu Wang (2016) describes this phenomenon as entering into ‘‘contested multilateralism’’.

One of the motivations of China for promoting the creation of the AIIB is also viewed as a consequence of the failure of Bretton Woods institutions to adjust the voice of China and other rising powers by Strand, Flores & Trevathan (2016) and Chin, G. T. (2016). Strand et al. consider the establishment of the AIIB as a reaction to the Western-dominated institutions. They argue in their paper that China’s leadership in the AIIB reflects the ideology of a rising state which is discontented with the status-quo of the global financial architecture. Yun Sun (2015) agrees with them on that topic. Biswas (2015) takes this argument one step further. He asserts that China has finally turned its dissatisfaction into an action and created the AIIB. He goes on by saying that China aims to change traditional financial institutions essentially. Even though Strand et al. agree with Biswas on the establishment reason of the AIIB which is the failure of the established institutions to accommodate China within them, they disagree with him on China’s intention of creating the AIIB. They maintain that the AIIB should not be seen as a challenge to the Bretton Woods institutions and Western dominance within the global financial structure. They do not consider the AIIB as a rival institution because of similarities that the AIIB have with traditional international organizations such as their institutional designs and purposes. By the same token, Sekine (2015) also admits the efficiency problems in the WB and claims that China intends to adjust problematic issues in the established institutions. Like Strand et al, she comes to the same conclusion about China’s goals behind the creations of the AIIB and the NDB. However, she bases her claims not on the similarities in the designs of the institutions but to the co-financing agreements among the Chinese led banks and Bretton Woods institutions.

Evan A. Feigenbaum (2017) acknowledges the formation of the AIIB as an apparent indication of Beijing’s dissatisfaction with the unfair governance structures of the traditional institutions. For him, this does not mean the complete departure of China from the western dominated system. Beijing still plays important roles within the Asian Development Bank and the World Bank. He conceives this more like a portfolio diversification of China.

Pang Zhongying (2015) analyzes the issue from both sides. On the one hand, he thinks that the AIIB is a complement to the existing system because there is simply enough room for all the MDBs in the market. On the other hand, it might become competitive by being more efficient than the existing institutions. However, he does not perceive this competition as something negative and thinks that it will raise the quality of the global financial system. In the same manner, Villafranca (2016) thinks that the AIIB initiative will eventually bring change to the system, yet this change should not be perceived as black or white. Like Zhongying, he talks about positive competition which can bring effectiveness and efficiency to the system. Unsuccessful reform attempts from the inside of the system are also what forced China to establish the AIIB for Alex He (2016). He contends that the AIIB may push reforms in the established organizations through competition while following the same standards. Similarly, Mahbubani and Chesterman (2010) touch upon the change that the AIIB can bring to the system. Indeed, they aspire to the AIIB's success. In contrary to Alex He, they hope that this success will lead to the introduction of new rules to the global finance which is not created unilaterally by one bloc of countries.

Rajiw Biswas (2015) also analyzes the impacts of these newly established institutions on restructuring global financial architecture. He thinks that the new banks would result in a revolution in the system if they will be successfully implemented. He asserts that the core purpose of the NDB is to reshape the international financial architecture. When claiming that he bases his findings mostly on the statements of BRICS leaders. David Shambaugh (1996) agrees with him and also considers the creation of the new international rules as the sole purpose of China. According to him, China is not satisfied with the status-quo. In that regard, Beijing does not only want to get a seat on the table by reforming the existing institutions but to replace the existing rules and institutions. Correspondingly, Daniel Chow (2016) indicates that the AIIB could be evidence of upcoming change in the international system. He supposes that China's success in the AIIB may put the US' role as the final arbiter of the rules of global finance under risk. Then, he further elaborates on this idea and says that China, getting tired of failing in reform attempts due to the US Congress' reaction to the reforms, decided to set up rival institutions in which it can play dominant role and shape. According to him, this represents an unprecedented shift in the global economic governance. In a similar fashion, Chris Humphrey (2015) considers that these banks may mark the beginning of a new era in development finance.

As a result, despite many consider these banks as revolutionary; others think that they will play a more complementary role. Naturally, China and other developing economies will try to increase their voices in the system and they will continue to push for more reforms as long as the problems exist. However, the point is that how they will do that and whether they will create complementary or challenging institutions. According to one interpretation, as the unfairness within the system continues, this will only encourage developing economies to take a more aggressive stance towards traditional institutions (Françoise Nicolas, 2016). Others like Evan Feigenbaum (2017) think that developing countries will still continue to play an important role within the existing system in spite of creations of the new institutions. As it is shown there is also a gap in the literature on that topic. This paper aspires to fill this gap.

2.4. True Multilateral Development Bank or just Serving to Chinese Interests?

In the previous parts, major themes that discussions on the creations of the AIIB and NDB go around are reflected from different perspectives. The last major topic that we have ongoing conversations will be investigated in this section. Certain national interests of the developing countries, more particularly China, are debated as one of the drivers of the establishments of the AIIB and the NDB. It is actually the sum of various topics. Although several things can be included under this heading like solving China's overcapacity problem as some scholars claim, the One Belt One Road (OBOR) initiative, elevating China's regional status and reducing developing countries' dependence on the US dollar draw the most attention among the scholars. Therefore, focus will be specifically given to these issue areas.

China's OBOR initiative is announced by Xi Jinping during a 2013 visit to Kazakhstan. It includes a proposed infrastructure network which connects more than fifty countries along the land route ('Silk Road economic belt') and an ocean route (the '21st century maritime Silk Road') (Allen Au-Yeung, 2016). In that regard, The OBOR initiative is composed of 2 parallel projects, namely, Silk Road Economic Belt and 21st Century Maritime Silk Road and serves the deeper integration of the countries. The purpose of the OBOR is to promote interconnectivity across the Eurasian continent and bridge China first with its neighbors and then with the rest of the world by building networks of connectivity (Tow, D. M., 2017). Gan (2010) outlines some of the possible benefits of the OBOR project for China as expanding the foreign markets for China, increasing the Chinese soft power next to the economic and political benefits and improving China's status in the region (as cited in

Callaghan and Hubbard, 2016, p.5). By looking at its purposes, Nicolas (2016) establishes a connection between the AIIB and the OBOR initiatives.

In addition, the OBOR and the AIIB initiatives are announced almost simultaneously. In that context, many directly link both initiatives and consider the AIIB as a tool to implement the OBOR. Nicolas (2016) is one of these authors who claim that the almost concurrent announcements of both projects are one of the signs that further strengthen the link between them. Since he considers the OBOR as a project which serves directly to the Chinese interests, the AIIB is also a tool to achieve Chinese political and economic objectives for him. Furthermore, Callaghan and Hubbard (2016) argue that China's motivations in establishing the AIIB are beyond just narrowing down the infrastructure gap in Asia. They think that financing the Silk Road Economic Belt and 21st Century Maritime Silk Road is the most important impetus behind the creation of the AIIB. In the same manner, Tang Siew Mun (2015) claims that China will use the AIIB's resources to fund the OBOR projects. At the same time, he asserts that the AIIB is a challenge to the Bretton Woods institutions and Western-led global finance structure.

Wang Yi confronts with Mun's argument about the challenging status of the AIIB (Ministry of Foreign Affairs of the People's Republic of China, 2015). In contrary to Mun, he contends that China neither dominates the AIIB nor intends to challenge the existing financial architecture by using the AIIB or the OBOR. He adds that memberships of the western powers to the AIIB will constrain the possibility of Chinese domination within the institution. On the other hand, Daniel Chow (2016) disagrees with Yi's arguments. He finds it inevitable that China will use the AIIB to reach its foreign policy objectives regardless of its success. He further claims that it would be unrealistic for China to not use this opportunity while the US is dominating and using the WB and the IMF to further its goals. Unlike Yi, he considers the AIIB under the firm control of China.

Since the OBOR requires huge infrastructure investments specifically in Asia and beyond, the AIIB will finance at least some of the OBOR related projects without a doubt. As the AIIB projects will be beneficial in many ways for the countries in which it conducts projects, it is natural that it also helps China, at least partially, in achieving some of its aims. However, considering the AIIB only as a tool to implement the OBOR would be underestimating its potential as a multilateral development bank.

Rather than focusing on the relation between the AIIB and the OBOR, Lincoln Hines (2016) turns his attention to China and its status within the region. He considers the AIIB and NDB as the steps that China take in order to assume regional leadership in the Asia-Pacific region. According to him, these projects will elevate China's prestige. This elevation will challenge the US position in the region and lead to competition for the leadership between the two powers. Likewise, Tang Siew Mun (2015) asserts that China is institutionalizing its regional leadership by building mechanisms like the AIIB and the OBOR. He also adds that participation of western powers to the AIIB despite the US attempts to prevent it is a clear reflection of their acceptance of China's regional leadership. In addition, he perceives the AIIB as a direct rival to the Bretton Woods institutions and the ADB as it provides alternative to them. William Callahan (2016) takes this argument and goes one step further. He argues that although China's aim might be reconstructing the regional order in the short term by introducing these projects, it eventually aims to reconstruct the global order with its own norms and rules. Therefore, the AIIB serves as a mean to promote China's vision of global governance. The opinion of a Chinese foreign policy expert is consistent with Callahan's (Sun, 2015). Although she lists a couple of reasons behind the establishment of the AIIB, she considers China's purpose of establishing a new global order which properly reflects its weight within the system as the major intention.

Another ongoing discussion that will be analyzed as part of the national interest discussion is the roles of the AIIB and the NDB in reducing emerging countries' dependence on the US dollar. In addition to the financing OBOR project and elevating China's regional status, newly established banks might be instrumental in promoting the use of local currencies.

China has been trying to promote its national currency as an international one in the IMF for some time and has achieved its aim when the IMF declared it as one of its official currencies on November 30, 2015 (Calamur, 2015). However, it was mostly symbolic move. Its actual use in the international system is more important for China. In case it will be frequently used in international transactions, China will gain meaningful political power. The use of the US dollar in international transactions provides the US ability to freeze any transactions in the world even if it is initiated overseas. It is because the trade in US dollars requires clearance from the banks in the US (Finel-Honigman and Sotelino, 2015). Therefore, an increase in the use of currencies other than US dollars in international transactions will eventually affect US power. According to Hongying Wang (2017), the AIIB may gradually end the domination of US dollars in the international financial system. Like Wang, Yun Sun (2015) also believes that the AIIB might play an effective role in the internalization of the Renminbi[10]. Furthermore, Daniel Chow (2016) claims that the AIIB can be a crucial element for China to achieve this goal by lending in the local currencies of the countries in which projects take place.

Although both banks have used the U.S. dollar for their first loans, they plan to increase the use of local currencies in time. In fact, the NDB has already financed 3 projects which take place in China in Renminbi as of September 2018.[11] In the long term, the bank plans to lend more in local currencies of BRICS countries to counter the risk of foreign exchange volatility (Njobeni, 2018).

As it can be seen from the discussions so far, there is no consensus in the literature over the possible future implications of the newly established banks on the traditional economic institutions and the global economic governance. While the banks' Articles of Agreements emphasize collaboration and cooperation with traditional international organizations, there are tangible concerns that cannot be ignored about whether or not the AIIB and the NDB are created as alternatives to the ADB and WB and promoting a revisionist strategy to challenge the global economic governance dominated by the West. However, it should not be forgotten that most of these papers were written either in the process of establishment of these banks or soon after the creation. Since the NDB and the AIIB started fully operating, financed couple of projects and established connections with the other development banks, it is possible to better analyze what benefits and risks they might bring to international cooperation on development. In this context, the findings of this paper are expected to contribute to the ongoing debates by analyzing articles of agreements of the banks, their practices and projects and comparing them with each other.

[10] The official currency of China

[11] https://www.ndb.int/projects/list-of-all-projects/

3. **METHODOLOGICAL FRAMEWORK**

The primary objective of this paper is to find out possible implications of the establishment of the Asian Infrastructure Investment Bank and New Development Bank on current global financial system. By doing that, this research is expected to contribute to ongoing debate surrounding the creations of these Chinese led banks.

The research question of this paper is formulated as ‘‘whether Chinese led multilateral development banks complement or compete with already existing Bretton Woods institutions in regard to economic governance?’’ And main assumption of this paper is that newly established institutions will play complementary role in the short term. However, they are expected to have a fundamental pressure on the established institutions in the long term due to innovations they bring.

In order to find an answer to our research question and assess the benefits and risks posed by the NDB and the AIIB for the existing institutions and to the system in general, governance structures, procedures, and actual operations of the selected multilateral development banks are examined. They are also evaluated in comparison to structures, procedures and purposes of the Asian Development Bank and the World Bank in order to better grasp the differences. Chinese led development banks are often considered as competitors of the WB and ADB in the literature. That is why they are also taken as a point of comparison in this paper.

Comparing governance structures, aims, operational procedures and actual operations are chosen since these variables are expected to define the place of the banks in the international system and determine their influences over the current global economic system.

As the official documents establishing international institutions are primary sources to gather accurate data on their functioning, the Articles of Agreements of the banks are used to develop detailed analysis of the banks’ governance structures. Comparing articles of agreements is expected to give us important information about how to analyze the nature of these banks and enable us to examine if the AIIB and the NDB can build a new MDB model different from the existing ones. They are also utilized in comparing the purposes and operational procedures of the banks. When analyzing, all articles are read one by one thoroughly and compared to relative articles of the existing banks. This enabled us to understand aims, governance structures and operational procedures of the banks as they are clearly stated in Articles of Agreements.

As it is already stated, actual operations of the banks are also examined aside from Articles of Agreements of the banks with the intention of conducting sort of reality check. Even so examining MDBs concerning their aims, procedures and loans are among the purposes of this paper; it also aspires to conduct a form of reality check through the analyses of actual bank's projects in order to see if the claims and promises of the banks are only on the paper or not**.** In that sense**,** carrying out a reality check was vital to reach our purposes.

It is done through the indirect analyses of certain projects. In that regard, we did not choose any specific projects to analyze directly. Instead, reports of various civil society and nongovernmental organizations on actual operations of the banks are used as means so as to reveal if the promises and claims of the AIIB are in line with its actual conduct of projects. Several reports of various organizations and institutions such as Greenovation Hub, NGO Forum on ADB, Bank Information Center and the Heinrich Böll Foundation, Inclusive Development International, OXFAM are reviewed in that process. Accessibility of the reports constituted primary criterion in the selection process of them.

Before extracting data from the reports, the point of focus is chosen. As it is mentioned in the previous chapters, the AIIB has a claim of being green, lean and clean. Based on these claims, being ''Green'' is chosen as a focal point and our focus is oriented towards that point in analyzing the reports. Relevant data from the reports is taken and reviewed collectively. Based on the analysis of these reports, some common criticisms on certain projects are presented in the paper. Using these reports instead of official bank reports also facilitated us to look at the projects from different perspective.

Further reviews of international media, scholars' opinions and speeches of the government officials are used throughout the research to strengthen the paper's claims.

There are several limitations to this paper. Due to the broadness of the subject, only detailed examinations of the AIIB operations in one field are conducted during the analyses of actual operations. In that context, a form of reality check should also be performed on NDB operations in future studies. The language is another obstacle which prevents us to use

Chinese sources more efficiently. As a result of that limitation, only the articles of Chinese scholars which are written in English are analyzed. This barrier restricted us from comparing how Chinese and other scholars view these banks and if there is any divergence in their perceptions. These limitations of this study needed to be noted and should be refrained in further researches.

4. THE OVERVIEW OF THE SELECTED BANKS

In the previous chapter, ongoing debates on the future implications of the Chinese led multilateral development banks are analyzed comprehensively and the arguments of various authors are reflected from different angles. Before going further with the analyzation part of this paper, a brief general overview of the banks will be provided in order to better understand the context. It is also expected to help us in our analyses. Ultimately, even though the AIIB and NDB are economic institutions, the rationales behind the formation of them are far from being only economic. They are also products of social, political and geopolitical arrangements.

Since the governance structures of the institutions will be analyzed in depth during the comparison of the Articles of Agreements, detailed information will not be provided under this section in order to avoid repetition.

4.1. The World Bank

As it is already explained in the preceding chapter, allied countries gathered at Bretton Woods to create a new international financial order toward the end of World War II. The International Bank for Reconstruction and Development (IBRD), soon called as the World Bank, was created with that purpose. Originally, the main aim of the IBRD' loans was to help the reconstruction process of the countries which were devastated by World War II. Later, IBRD shifted its focus and started assisting middle income and creditworthy poorer countries (''The World Bank Group,'' n.d.) Eradication of poverty became its primary goal. The IRBD is one of the five institutions which form the World Bank Group (WBG). Each of these five institutions has their own roles in world lending.[12] Today it is used interchangeably with the WB.

[12] The World Bank actually consists of a group of institutions. Within this group is the International Bank for Reconstruction and Development (IBRD), which provides loans for middle-income and poor countries for economic development; "the International Development Association (IDA) provides loans to the least developed and poorest countries of the world." The International Finance Corporation (IFC) provides financing for projects in poor countries that investors might otherwise find too risky. "The Multilateral Investment Guarantee (MIGA) helps promote FDI in developing countries by insuring against political risk, such as expropriation, war," and civil disturbances. The International Center for Investment Disputes (ICSID) provides a facility for the settlement of investment disputes between foreign investors and the host country of the investment. Retrieved from: http://www.worldbank.org/en/about/history/the-world-bank-group-and-the-imf

The World Bank currently has 189 member countries and it is headquartered in Washington, D.C. Although it was more focused on infrastructure projects at the beginning of its establishment, the World Bank Group provides financing on issues ranging from climate change to education. Other issue areas include food security, agriculture, trade, and finance. Aside from financing, it provides policy advice and technical assistance to governments.

Today's developing countries like Brazil, China and India were not present at the creation process of the WB. That is why the US gained the biggest voting shares by contributing most during the installation of the Bank at the Bretton Woods conference in 1944 (Gianaris, 1990). Naturally, this was the only reflection of the political and economic realities of the time. However, the US still has the largest voting share within the institution (15.98%). This percentage gives the US effective veto power on the vital questions. Importance of the veto power was proved lately when the US Congress did not approve reform packages in time which aims to shift voting powers from developed countries to emerging economies. This has led to frustration among the developing countries. Recent total subscriptions and voting power of some important countries in the WB can be seen in Table 2.

Table 2

Name of the countries	Total Subscriptions	Voting Power
United States	16.88%	15.98%
Japan	7.26%	6.89%
China	4.68%	4.45%
Germany	4.24%	4.03%
France	3.97%	3.78%
United Kingdom	3.97%	3.78%
India	3.07%	2.93%
Russia	2.92%	2.79%
Brazil	2.35%	2.25%

Voting Powers of some important countries -Source WBG Website (WBG, 2018 September 30)

4.2. Asian Development Bank

The Asian Development Bank (ADB) is a regional development bank established on 19 December 1966. It’s headquarter is located in Manila, Philippines. Although it had 31 members at its establishment in 1966, the ADB’s membership has enlarged in time. Today, 67 countries are member of the ADB and 19 of them are outside of Asia-Pacific region. 48 regional members provide 63.5% of its capital and remaining 19 non-regional members provide 36.5%.

Similar to the WB, the funding priorities of the ADB have changed parallel to economic and political necessities of the time. While it was mostly focusing on food production and rural development when it was first established, its focus has shifted to the energy sector with the outbreak of the oil crisis in the 1970s. During the 1980s, its policy agenda has been further diversified with social infrastructure projects such as funding education, urban planning, health sectors, and helping women and girls. Today, the bank describes itself as being committed to achieving resilient, prosperous and sustainable Asia. It assists its developing members to reduce poverty and improve living conditions and quality of life. It focuses on a wide range of areas which includes education, energy, environment, gender, health and transportation sectors (Asian Development Bank, n.d.).

In 2009, ADB's Board of Governors agreed to triple ADB's capital base from $55 billion to $165 billion, giving it more resources to respond to the global economic crisis.[13] As of 31 December 2017, ADB’s five largest shareholders are Japan (15.6%), the United States (15.6%), the People’s Republic of China (6.4%), India (6.3%), and Australia (5.8%). The current voting share powers collectively give Japan and the US veto power over important decisions. This structure is one of the most criticized aspects of the ADB. Even though China has a bigger economy than Japan based on GDP calculations, Japan’s voting power within the ADB is two times more than China’s. Percentage of shareholdings of the top seven countries within the ADB can be seen on table 3. Another criticized issue is that traditionally ADB’s presidents are always Japanese. This is a clear symbol of Japan’s dominance and control of the institution.

[13] http://unesdoc.unesco.org/images/0019/001912/191246e.pdf

Table 3

Name of the Country	Shareholdings
Japan	15.6%
United States	15.6%
China	6.4%
India	6.3%
Australia	5.8%
Indonesia	5.4%
Korea	5.2%

Voting Powers of some important countries within the ADB-Source: Asian Development Bank, n.d)

4.3. Asian Infrastructure Investment Bank

The idea of the establishment of the AIIB was first suggested by President Xi and Premier Li Keqiang in 2013 during their visits to Southeast Asia. More concrete steps towards the realization of the bank were taken in the following months. The official process founding the AIIB started in Beijing on 24 October 2014 with the signing of the instrument of the establishment by 22 countries and Beijing was selected to host Bank headquarters.

The Chief Negotiators Meeting (CNM) was also established by those 22 countries as a forum for the purpose of negotiating and discussing on the Articles of Agreement. In the meantime, by the deadline of March 31st for submission of membership applications, the number of prospective founding members had increased to 57 including several European states such as the United Kingdom, Germany, and France. Although the western states were reluctant in joining the bank at the beginning, almost all of them decided to join after the United Kingdom's decision to take part in. This left the US and Japan as the only non-participant major western powers (Mun, 2015). After a series of meetings, the Articles were signed by a total number of 57 countries between June 29, 2015, and December 31, 2015, and entered into force on December 25, 2015.

The AIIB officially opened its doors on January 16, 2016, after 15 months of negotiation process of the Articles. It is designed to provide much needed infrastructure financing to the Asia-Pacific region and fill the enormous financing gap in development finance. Main operating areas of the bank can be named as energy, telecommunications, and transportation sectors.

The authorized capital stock of the Bank is 100 billion US dollars and China contributed $29.8 billion of it. The second largest contributor is India with $8.4 billion. The fact that China is the biggest contributor and its contribution is far above the input of second largest contributor gives China effective veto power over all major decisions of the AIIB. This is one of the most criticized sides of the Bank and resembles the US dominance within the traditional development banks.

Table 4

Name of the countries	Total Subscriptions	Voting Power
China	31.01	26.63
India	8.71	7.65
Russia	6.8	6.02
Germany	4.66	4.21
France	3.51	3.22
United Kingdom	3.18	2.94

Voting Powers of some important countries within the AIIB-Source: (Asian Investment Infrastructure Bank, 2016)

Its mode of operation is presented as lean, clean and green (AIIB, n.d). These terms mean; efficient management, zero tolerance for corruption and having respect for the environment, respectively (Ong, 2017).

The bank's claim is that it will complement the efforts of existing multinational development banks in financing infrastructure. In that context, the AIIB signed a couple of partnership agreements on co-financing projects with the other MDBs and national development banks. Some of the banks that these memorandums are signed are the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Islamic Development Bank Group (IsDB Group), the New Development Bank and the World Bank (AIIB, n.d). Indeed, the majority of the projects that the AIIB approved are co-financed. National Motorway M4 project is one of the co-financed projects. It is equally financed by both the Asian Development Bank and the AIIB. Batumi bypass road project which seeks to improve regional connectivity in Georgia and improve efficiency for road transport along the East-West Highway is another co-financed project by two organizations. It is possible to increase the number of these examples.

4.4. New Development Bank

The NDB is a joint initiation of the BRICS countries (Brazil, Russia, India, China, and South Africa). At the fourth BRICS Summit in New Delhi (2012), the idea of creating a multilateral development bank which will be led by BRICS group was introduced for further consideration. In the next summit in Durban, this consideration left its place to more concrete planning. The decision to establish the NDB was formally announced following the positive report of finance ministers. On 15 July 2014, during the sixth BRICS summit, establishing the New Development Bank was formally accepted by BRICS leaders. The NDB started its operations before the BRICS Summit in Ufa, Russia in July 2015. The first president of the bank is selected from India.

The headquarters of the Bank is located in Shanghai, China. First regional office of the Bank is opened in Johannesburg, South Africa. Furthermore, the BRICS New Development Bank is planning to launch its Americas regional office in Brazil this year (‘‘BRICS Bank plans,’’ 2018). These regional offices are expected to support growing range of the bank’s operations. They will also increase the operational capabilities of the NDB since they will assist the headquarters in identification and preparation of bankable projects in the regions they are established.

The NDB’s purpose is described as financing infrastructure and sustainable development projects in BRICS and other developing countries.[14] Although what infrastructure projects mean is clear, there is a lack of clarity in terms of sustainable development projects. Sustainable development projects are further clarified by vice president and chief financial officer of the new development bank as green finance, green technologies, and renewable energy (as cited in Bertelsmann-Scott et al., 2015).

In contrary to the AIIB, the NDB has a global focus rather than being only regional. Yet, the membership in the NDB is much more limited than the AIIB, at least for now. The only members of the NDB are BRICS countries. The initial subscribed capital of the Bank is USD 50 billion, equally shared between the members. Parallel to equal contributions of all members, they have equal voting power. This feature of the bank makes it unique in

[14] Articles of Agreement

comparison to mainstream financial institutions. However, it is also mentioned as a limitation in the literature. Chris Humphrey (2015) argues that the bank's initial capital would be much higher than its current level if differentiated contributions were allowed. The bank's budget stayed limited due to the limited economic capacity of South Africa.

In a similar way to the AIIB, BRICS leaders also emphasized the complementing role of the NDB. As a proof of their intentions, as the AIIB did, the NDB also signed a couple of cooperation agreements with other financial institutions to facilitate co-financing. The NDB and International Finance Corporation (IFC), member of the World Bank Group, signed an agreement aiming to promote co-financing of projects (New Development Bank, 2018). Furthermore, in May 2016, the AIIB and the ADB signed a memorandum of understanding regarding jointly financing sustainable development projects (Asian Development Bank, 2016). At the same time, the AIIB and the World Bank signed their first co-financing framework agreement (World Bank, 2016).

5. ANALYSES AND COMPARISON OF THE GOVERNANCE STRUCTURES THE BANKS

After demonstrating the main ideas about establishment of the AIIB and NDB from various viewpoints and looking at general overview of the selected banks, governance structures of both banks will be analyzed comprehensively in comparison to IMF and the ADB in order to understand if they compete with or complement the existing institutions. The purpose is to base our arguments on facts rather than perceptions or impressions. In the current situation, existing MDBs are being criticized for several reasons as we have seen in the previous chapters. In that context, comparing articles of agreements will give us important information about how to analyze the nature of these banks and enable us to examine if the AIIB and NDB can build a new MDB model different from the existing ones.

In order to better reflect the differences, articles are grouped under some subheadings based on related topics. These are; ‘management and staff’, ‘decision making and veto power’, ‘president of the bank and the staff’, ‘lending practices and the mode of operations’. Before discussing the differences between the banks under these subheadings, similarities will be provided first.

5.1. The AIIB-ADB

The AIIB displays both continuities and innovations in its Articles of Agreement (AoA). When the purposes and functions of both banks are analyzed, similarities between them can be quickly realized. The only difference between the stated purposes of the banks is that while the AIIB focuses on infrastructure projects, at least in its initial phase, the ADB finances projects in wider range of areas to achieve its aims. In the same manner, there is no real difference between the members of the ADB and the AIIB. The main distinction is the absence of the US and Japan within the AIIB’s members. It should be also noted that although the AIIB is a much more recent invention, the number of member countries to the AIIB has already surpassed the ADB’s. The AIIB has currently 87 member countries. On the other hand, a total number of members of the ADB are 67. This outcome is actually not surprising and cannot be only explained with the innovations that the AIIB brings. As it is discussed throughout the paper, politics and economics intersect in many areas. The reason why countries join the AIIB might be their fear of exclusion from OBOR related investments or their desire of advancing relations with China. It is important to bear in mind that politics play important role in many cases.

Additionally, it is also not realistic to claim that the AIIB is a challenge for the ADB and the WB in a broader sense considering the economic size of the AIIB. While the ADB has a capital base (money both paid-in and pledged by member nations) of just over $160 billion, the AIIB has only $100 billion (The Economist, 2014). In that sense, the AIIB does not seem to be a real challenger neither to the ADB nor the World Bank. Nonetheless, its significance does not lie primarily in the size of its capital. The AIIB can also easily increase the size of its capital thanks to economic power of its member countries. This issue will be touched upon shortly.

A close look at the operating principles of both banks also shows that the AIIB does not completely depart from the norms and practices that existing MDBs embrace. Article 13 is about the operating principles of the AIIB. It states that the AIIB shall be guided by sound banking principles in its operations. Aside from that one, it is also stated that no restriction will be put upon the procurement of goods and services from any country. The AIIB applies universal procurement policies and does not tie its loans or project financed by it to AIIB's membership. This is largely similar to the majority of MDBs such as the World Bank and the EBRD, but different from the ADB. Furthermore, it says that the Bank shall seek to maintain reasonable diversification in its investments. These clauses suggest that the AIIB has embraced many of the norms and standards which are defined by the core MDBs. However, these are only claims of the Bank. This topic will be further investigated in order to see if these are reality or not.

Aside from these resemblances, there are several points that the AIIB diverges from the existing multilateral development banks. The key novelties of the AIIB arise in the areas of decision making, management and staffing, the lending practices and business models of the bank.

5.1.1. Management and Staff

Management of the bank is one of the areas in which the AIIB can be considered as innovative. Even though the AIIB has a three-layer governance structure involving a Board of Governors, Board of Directors and management similar to the traditional MDBs, the non-resident status of its Boards of Directors is distinguishing feature of the Bank.

According to AoA of the AIIB; all the powers of the bank are vested in the Board of Governors similar to the traditional MDBs.[15] Major policies and decisions such as increasing or decreasing the authorized capital stock of the bank, amending the AoA of the AIIB agreement, admitting or suspending a new member, electing the president, determining the reserves, and the allocation and distribution of net profits are decided by the Board of Governors. On the other hand, duties of the Board of Directors are defined as being responsible of the direction of general operations of the bank, exercising all the powers delegated to it by the Board of Governors including establishing the policies of the Bank and making decisions on major operational and financial policies.[16]

Normally, in the traditional MDBs such as the World Bank, the IMF and the ADB, the most influential member states are represented by resident executive directors who reside in the headquarters on a regular basis and actively involve in the daily operations of the Bank. The Board of Directors acts as a check and balance mechanism on management and can directly affect the lending decisions of the bank. Unlike the World Bank and ADB which have resident directors, the Board of Directors of the AIIB consists of non-resident directors. This means that the directors of the AIIB are not located in the headquarters of the bank.

It should be taken into consideration that this structure is what China has planned from the beginning of the introduction of the AIIB. For instance, the Chinese Finance minister has mentioned about this three layers governance structure and non-resident status of the Board of Residents in October 2014 even before the start of negotiations of the AoA of the AIIB (as cited in Sun, 2015). However, this structure should not be approached negatively just because it was the preference of China from the beginning.

This innovation may either enhance the efficiency of the bank or work in the opposite direction and lead to a negative outcome. First of all, a non-resident and an unpaid board may allow both cost saving and efficiency. In institutions such as the World Bank or the IMF, the prominent member states have representatives holding seats in a resident executive board. These representatives are actively involved in the daily operations and decisions of the institutions. According to proponents of non-resident directors, this leads to excessive bureaucracy, politicization of some of the decisions and consequently slowing down of the decision making process. Sheng and Xiao (2015) claim that the resident Board of Directors at

[15] Article 23
[16] Article 26

the World Bank undermines decision-making effectiveness as different considerations easily led to conflicts in loaning conditions (as cited in He, 2016). AIIB President Jin has also criticized the ADB's resident Board of Directors, calling it "a disaster" (Perlez, 2015).

In addition, a resident Board of Directors does not only prolong the decision making process but also expensive to maintain. The AIIB directors will not be paid unless the Board of Governors decides otherwise.[17] The unpaid and non-resident directors will also save the bank from a huge cost. According to David Dollar, a former World Bank official, the resident board costs the World Bank some $70 million annually (Magnier, 2015).

On the other hand, some fear that the existence of non-resident board would be a vehicle for promoting China's interests since there is a possibility to leave the management unchecked over its decisions (Chin, 2014). If the non-resident board takes a hands-off approach to the performance of the Bank, it automatically brings more delegation of decision-making to AIIB management. Considering the fact that China has a veto power over the selection of the president (regardless of using this power), this can give China immense power over the operations of the Bank. Because there will not be a powerful resident board which can act as a political counterweight to China's management of the Bank (Mun, 2015). Even though the non-resident board structure is not being used by the majority of traditional MDBs, it is not the only example of its kind. The European Investment Bank also has the same structure.

In conclusion, this system is designed to make the management less checked, and make the decision process smoother and thus more effective. In order this system to be successful and effective, the roles, responsibilities and expectations of the board and management have to be clearly articulated. Management should have operational freedom and discretion but must be fully accountable to shareholders through the board for its performance (Callaghan and Hubbard, 2016). To the extent that the AIIB's dual non-resident board arrangement is effective, it will have a demonstrative effect and create pressure on the World Bank, the ADB, and perhaps even the IMF to adjust their governance arrangements.

5.1.2. Decision Making and Veto Power

As it was shown in the previous chapters, two of the vital reasons behind the establishment of the AIIB are developing countries' dissatisfaction with the lack of reforms

[17] Articles of agreement 25(6)

and perceived unfair governance structures within the traditional MDBs. In light of this, creating new governmental structures which give emerging and developing countries fair voice prevails as one of the purposes behind the creation of the AIIB. ‘’While being open to the participation of non-regional members, the AIIB is committed to and prioritizes the ownership of Asian members. This is reflected in the capital structure of the Bank (Liu and Umehara, 2017, p.3). Seventy five percent of the total votes have been reserved for regional members unless otherwise agreed by the Board of Governors by a Super Majority vote. The aim is to not let non-regional developed countries control the bank. On the other hand, this percentage is lower in the ADB (regional members should have at least 60 percent). In that regard, only two non-regional members, namely the USA and Canada, hold more than 20 percent of the total votes in the ADB and are quite influential due to their initial financial contributions to the organization.

Despite the new bank does not allow a non-regional country to play a great role, it lets China play a dominant role with almost 30% of shares and voting power (Valeriani, 2016). The voting arrangements of the AIIB consist of basic votes, founding member votes and votes aligned with each member’s share of the capital stock in the Bank. Basic votes are equal to 12 percent of the total votes and shared equally between all members. This structure also exists in the other multilateral development banks and the purpose is to boost the voting power of small member countries. However, founding member vote structure is something new and not found in the other traditional MDBs (Callaghan and Hubbard, 2016). Based on this formula; founding members of the AIIB are assigned 600 additional votes. The basic votes and founding member votes are fixed and the share vote is distributed based on the size of each member’s GDP. So, GDP of a country is the most important determinant of its capital share in the Bank in this system. It is different from the quota formula of the IMF. The IMF, for instance, uses various variables in order to calculate capital share of each country. These variables are GDP (weight of 50%), openness (30%), economic variability (15%), and international reserves (5%). The AIIB formula is considered as pro-development since developing countries including China generally perform better in GDP than by other measures (Gu, 2017).

However, there is still a difference between the regional and non-regional members in this calculation. GDP share is indicative only for non-regional members. This means that if Japan decides to join the AIIB, its share of the capital stock would be based on Japan’s relative GDP since it is a regional member. However, in case the United States joins, its relative GDP would only be an indicative guide (Callaghan and Hubbard, 2016). Because there is simply quota for non regional members and their total votes cannot exceed 25 percent.

As a result, this voting power calculation system translated into China having 26.20 percent of the votes. Some of the other notable regional members like India, Russia, and South Korea respectively have 7.5 percent, 5.92 percent, and 3.5 percent voting powers.

China's voting power in the AIIB is significantly larger than the United States' 15.02 percent voting share in the World Bank and Japan's 15.6 percent voting share in the ADB. While China does not have a formal veto power over project-level decisions, this 26.20 percent of voting power gives China de facto veto power on major policies and decisions which require supermajority of 75 percent. Some of the significant decisions which require supermajority are changing the size, composition and non-resident status of the Board of Directors[18], election, suspension or removal of the president[19], suspension and restoration of membership[20], increasing the authorized capital stock of the bank[21] and changing the number of shares for existing members that could reduce the capital stock held by regional members below 75% of the total[22].

Skeptics assert that China will dominate the AIIB and having veto power is one of the signs of it. Yet, Chinese officials continuously claim that China did not seek veto power within the AIIB and its current veto power is the result of the voting calculations against the claims of skeptics. For instance, the Chinese head of the Interim Secretariat said that China will not dominate the operations of the bank and is not looking to politicize the decisions or activities of the bank (Kumar and Nakagawa, 2015). In the same manner, Shi Yaobin (2015), deputy minister of finance, explained that China's share and veto at the AIIB in its current form are the natural outcome of calculations based on the bank's rules and are not because China deliberately sought them (as cited in He, 2016). He also made it clear that China's shares and voting power at the AIIB would be diluted as new members join the Bank. In spite of the claims of Chinese officials that China will not abuse this veto power, this structure is actually similar to the US veto over World Bank decisions requiring an 85 percent

[18] Article 25.2, Article 27.1
[19] Article 29.1, 29.2
[20] (Article 38.1)
[21] Article 4.3),
[22] (Article 5.2 and Article 5.3).

supermajority. It is also possible to see the similar power structures in the ADB, the US and Japan holding veto power collectively.

In conclusion, when the system is carefully analyzed, it can be seen that the AIIB's weighted voting system is modeled after legacy MDBs with the exception of the bonus votes assigned to founding members. Based on this governance structure, concluding that the AIIB is different from the legacy international organizations would be problematic. Yet developing and emerging countries are given fairer voices, a country with a veto power is not promising bigger scale of change within the general system. This may only motivate traditional institutions to do small scale reforms in their internal structures in order to make it fairer.

5.1.3. President of the Bank and the Staff

The president of the Bank is the legal representative of it and conducts the business of the Bank together with the staff. The President should be elected with a supermajority vote of the Board of Governors through an open, transparent and merit-based process and he must be a citizen of one of the regional member. The Vice-President is elected with a similar procedure but he does not have to be a citizen of a regional member. The term of office is five years and he can be elected for a second mandate.[23]

The fact that the president of the World Bank has always been an American, the director of the IMF a European and the governor of the ADB from Japan has generated controversies and hesitations about the fairness and transparency of the selection process of these presidents (Zedillo, 2009). Discontentment of the countries which established the AIIB about this selection process can be understood by looking at the related articles in the AOA. It deviates from the ADB with its focus on an open, transparent and merit-based selection process.[24] For example, Mahbubani and Summers (2016) criticize the US and European dominance in the World Bank and the IMF by emphasizing this non-transparent selection processes.

The first appointed president of the AIIB is now Chinese Jin Linqun. This choice can be considered reasonable and expected outcome due to the role China has played in the establishment process of the Bank and the amount of contribution that China did. However, it should be kept in mind that China has more control over the appointment of the president of the AIIB than the US has in the World Bank and Japan in the ADB. While the appointment of

[23] Article 26
[24] Article 29

the president in the ADB and the WB is the result of informal arrangements, China has a veto power on any proposed AIIB president that it does not approve of due to its 26 percent voting power within the institution. This gives rise to similar concerns as those expressed against US and European preferences in World Bank and IMF leadership appointments.

As a result, this change can only create a positive effect and push for a change in traditional multilateral development institutions only if strong leaders will be appointed by respecting openness and transparency principles. This can be a major step forward if the selection process can be kept away from politicization.

5.1.4. Lending Practices and the Mode of Operations

The AIIB is in line with its predecessors in its basic structure, mode of operation and scopes, At this point, special consideration should be given to Article 31. It specifies that only economic considerations shall be relevant to AIIB decisions. It mentions the political independence of the Bank and its staff. It further remarks the duty of the Bank to not interfere with the internal matters of its members. This statement is interpreted by many as a signal that the AIIB will not follow Washington Consensus principals in contrary to traditional MDBs. Mahbubani and Summers (2016) are two of the proponents of this idea. They point in their paper that domination of existing financial institutions by Western powers are being used by these powers to implement their additional political and economic goals. In a similar fashion, Koh Gui Qing (2015) claims that the AIIB seeks to differentiate itself from the traditional MDBs by not attaching conditionalities to its lending such as privatization or deregulation. However, similar articles to this one can also be found in the charters of other MDBs. For instance, Article 36(2) of the ADB is very much alike to Article 31 of the AIIB. In that regard, the real practices of the bank should be examined to come to conclusion.

Even though it is not mentioned in its Articles of Agreement, one of the points that the Bank continuously emphasizes is the principal of being ‘’lean’’ in its business operations. This term means efficient management and refers to the elimination of overwhelming bureaucracy within the institution. It is reflected in the pace of screening of prospective projects. In traditional MDBs, screening of projects may take even more than 2 years, whereas it can be as short as 6 months in the case of AIIB. The cooperation with other international financial institutions is one of the factors that make it possible. Currently, the AIIB has only limited staff, meaning that it lacks the capability to conduct all of the projects independently. In that regard, the AIIB clearly seeks to cooperate with the other international financial institutions and most of the projects are being conducted as co-financed projects with other MDBs such as the ADB, WB and European Bank for Reconstruction and Development (EBRD). While cooperating with the other development banks, the AIIB also acquires know-how in its business and boost international public confidence towards the bank.

In conclusion, the Bank may not display distinctive characteristics from traditional MDBs in the short term due to several limitations. However, this situation can change in the medium-long term based on the lending practices which the Bank will follow when the Bank consolidates its position within the financial system.

5.2. The NDB-WB

The possible added value of the New Development Bank (NDB**)** in the growing cluster of old and new multilateral development banks will be evaluated under this heading.

First of all, likewise the AIIB, it is possible to notice the emphasis on financing infrastructure projects as its purpose in the Articles of Agreement of the NDB. Additionally, financing the sustainable development projects can be observed as a further focal point. To be more specific, the purpose of the bank is stated as to mobilize resources for infrastructure and sustainable development projects in BRICS and other emerging economies, and developing countries to complement the existing efforts of multilateral and regional financial institutions for global growth and development.[25] Other multilateral development banks also finance sustainable development projects, however highlighting it in the Articles of Agreement is a valuable step forward. In any case, the important point is that if this statement is being respected in reality or not. It will be further investigated in the upcoming chapter.

Other key differences between the NDB and existing MDBs come into prominence as dissimilarities in governance and management and lending practices. They will be analyzed under separate headings.

5.2.1 Governance and Management

Even though the governance structure of the NDB follows the model of traditional multilateral development banks in many ways, it diverges from them in numerous essential points.

[25] Article 2

On 15 July 2014, during the sixth BRICS summit, establishing the New Development Bank was formally accepted by BRICS leaders. The initial subscribed capital of the Bank was decided to be USD 50 billion, equally shared between the members. In parallel to this, the voting power of each member is equal to its subscribed shares in the capital stock of the Bank.

The equal share and weight of each member country in decision making is the most outstanding feature of the governance structure of the NDB and can be shown as the most innovative arrangement of it as it is meaningfully different from the traditional MDBs. Despite the major variations in economic sizes of its members, the NDB was set up on an equal share basis. For instance, the nominal GDP of China is more than 30 times bigger than South Africa's (IMF, 2018). However, the five member states have an equal share in the day-to-day management and the governance of the Bank. Therefore, no single country has veto power over the decisions or has a dominant role in the governance of the institution. This decision of BRICS countries to have equal share of votes despite discrepancies in their economic sizes is clearly a political move rather than economic one. If the voting powers were formulated based on GDP sizes of the members, the NDB could easily have more capital than it has now. Therefore, this political move is a clear indication of their frustration with the existing power structures in traditional MDBs and can be perceived as their direct criticism to the system in general.

Even though it may look like democratic at first place, the way the governance structure is arranged strengthens the authority of the BRICS countries within the institution. Under these conditions, the BRICS have reserved considerable control over the new bank through voting rules regardless of any other countries that may join in the future. According to article 8(c), five founding members can never have less than 55% of total voting share, non-borrowing members can never have more than 20% of total voting share and any individual member outside the founding five cannot have more than 7% total voting share. These statements guarantee that 80 percent of the equity of the Bank will be under the control of emerging market countries. However, whichever country joins the Bank; the total voting power of the BRICS will not be lowered than 55%.

The desire of BRICS countries to not lose the control of the institution to the developed countries can be understandable at least in the initial phase of the Bank. However, these arrangements show that they are also not willing to share it with the developing countries and emerging markets as well. This may lead other countries to perceive the NDB as just another unfair bank but under the control of a different group of countries.

It is actually surprising when we think about the background that the NDB was established. As it was already explained in the previous chapters, the rhetoric behind the formation of the NDB was perceived structural imbalances and unequal distribution of power within the traditional financial organizations. However, the NDB just creates new inequalities in the distribution of power and replaces them with the old ones

The equality among the member countries is also reflected in other areas. For instance, the NDB's Board of Directors (BoD) will have a maximum of ten seats, five of which will be reserved for the BRICS.[26] This means that other countries will be grouped together as a 'constituency' as we observe in the traditional MDBs. However, the improvement on the old arrangements is that the NDB allows multi-country seats to split their votes according to the preferences of each constituency's members.[27] Furthermore, the NDB's president will be chosen from the BRICS countries on a rotational basis.[28] The NDB will also have at least one vice-president from each founding member except the country represented by the president.[29]

Additionally, the capital contribution of a country is directly linked to its voting power in this system. In that regard, more democratic practices like assigning basic votes to every member (that we see in other multilateral development banks including the AIIB) which facilitates the increased participation of least developed countries to the decision making processes are not used.

5.2.2. Lending Practices

Lending practices are one of the crucial areas that the NDB tries to differentiate itself from the other MDBs. What we see as being ''lean'' in case of the AIIB can also be observed in the speeches of the NDB officials. For example, NDB President K.V. Kamath has criticized traditional MDBs for being "too rigid, inflexible, and slow." (Wildau, 2015). The processes of decision-making and approvals can become time-consuming in multilateral development banks and can take up to two years. In this sense, one of the aims of the bank is to reduce the loan processing time.

[26] Article 12(b)
[27] Article 6(d)
[28] Article 13(a)
[29] Article 13(c)

In fact, together with a relatively small number of staff and the non-resident board of directors which are expected to minimize the bureaucracy, the NDB can potentially be more efficient in the selection and approval process of the projects. Therefore, this new model of operation may stimulate change in the traditional multilateral development banks and put a pressure on them to increase their efficiency.

Another sphere that the NDB can make a change is local currency funding. Article 24 states that the NDB may provide financing in the local currency of the respective country in order to reduce the cost of borrowing and contribute to the development of local capital markets. Normally, traditional MDBs raise and lend in U.S. dollars to member countries. Aside from lending in local currency, the NDB also intends to raise local currency funding in its member countries. That means the Bank will be able to raise funding in Renminbi, in the case of China, and then provide financing in the same currency for the projects in China.

Finally, similar to the AIIB, the other crucial feature of the NDB and what might set the NDB apart from traditional MDBs is what they call "country systems". The bank's "Environment and Social Framework Policy" explains it as follows: "NDB promotes the use of strong country and corporate systems in the management of the environment and social risks and impacts. NDB also assists in further strengthening the country systems through a variety of mechanisms in both the public and private sector, including by (i) favoring use of country systems, with adequate support, at the operational level as it also fosters greater accountability and ownership; (ii) coordinating closely with other multilateral development banks, international financial institutions and relevant centers of expertise; and (iii) maintaining a risk-based and outcome-focused approach through measures aligned with the core principles;" (New Development Bank, 2016). In the light of this description, we can come to the conclusion that the NDB will avoid conditionality principle that the WB and IMF use. Put it in another way, the bank's lending will not come with conditions of privatization and deregulation which promote social and political change in borrowing countries. Commenting on the NDB, Lou said, "This bank will place greater emphasis on the needs of developing countries, have greater respect for developing countries' national situation, and more fully embody the values of developing countries." (Wildau, 2015).

The main conclusion of this section is that both the AIIB and NDB display continuities and innovations in their Articles of Agreement (AoA**).** Currently, the AIIB's organizational structure, policies, and operational procedures resembles in many aspects to those of existing

MDBs. Therefore, there are the institutional limitations for a breakthrough. In that context, they are not expected to fundamentally change the system in the short term. However, the innovative features that they have might essentially alter the existing practices in the medium to long term when the banks strengthen their positions.

6. OVERVIEW OF THE BANKS PROJECTS

After the examination of the articles of agreements of the banks, the actual operations of them through the examination of the financial composition of the banks’ approved projects will be analyzed in this part. By doing so, it is expected to see if there are other international institutions involved in the certain projects or not, as well as to see the banks’ share in the certain projects. Overall, the aim is to gain more knowledge about the actual operations of the banks.

Projects are inspected based on the available information on the institutions’ websites. It should be taken into consideration that even though these lists do not allow us to reach extensive conclusions, it will allows us to see the bigger picture and further help us in our analyses.

6.1. Overview of the AIIB Projects

In this section, the operations of the banks will be examined separately. During the analyses of the financial structure of the projects that the banks finance, special notice is given to the co-financing multilateral development banks. Regional, central governments or private institutions finance some part of the projects almost in all cases. However, lending of the multilateral development banks are targeted since it is the focus point of this paper.

As of October 2018, the AIIB has approved 31 projects. Approved projects are categorized based on the sectoral differences and there are seven different types of sectors based on the bank’s categorization. These are transportation, energy, infrastructure, telecommunication, water, urban, multi-sector and other.

AIIB’s funding to these projects differs based on diverse variables such as total cost of the project, type of finance or project size. There is no meaningful correlation between the project sector and the total amount of AIIB lending as there are small and large scale projects within every sector. The smallest project is the Dushanbe-Uzbekistan Border Road Improvement Project in Tajikistan ($105.9 million total cost), the largest is Trans Anatolian Natural Gas Pipeline Project (TANAP*)* in Azerbaijan ($8600 million).

As it can be seen from the table, currently, majority of the projects are focused on energy and transportation fields.[30] The projects conducted in the energy field cover large spectrum of areas ranging from general energy supply network developments to construction or improvement of renewable energy systems (hydropower, solar energy). Transportation projects mostly include developments of road or railway networks. These projects aim to improve road conditions and enhance transport capacity. In addition, three out of four multi-sector projects are directed to finance various development funds.

Table 5: Overview of Approved AIIB Projects[31]

Sector	Country	Project Name	Type of Finance	Total Cost	AIIB Funding
Multi-Sector	India	National Investment and Infrastructure Fund	Not co-financed	600	100
	Asia	IFC Emerging Asia Fund	Co-financed with IFC[32]	640	150
	India	India Infrastructure Fund	Not co-financed	750	150
	Indonesia	Dam Operational Improvement and Safety Project Phase II	Co-financed with IBRD[33]	300	125
Telecommu.	Oman	Broadband Infrastructure Project	Not co-financed	467	239
Urban	Indonesia	Regional Infrastructure Development Fund Project	Co-financed with WB[34]	406	100
	Indonesia	National Slum Upgrading Project	Co-financed with WB[35]	1.743	216.50
Water	Egypt	Sustainable Rural Sanitation Services Program, Phase-2	Co-financed with WB[36]	694	300
	India	Andhra Pradesh Rural Roads Project	Not co-financed	650	455
	India	Madhya Pradesh Rural Connectivity Project	Co-financed with WB[37]	502	140

[30] Table 5
[31] Source: https://www.aiib.org/en/projects/approved/index.html Accessed on: 02.10.2018
[32] IFC's funding 150 million dollar
[33] IBRD's funding 125 million dollar
[34] WB's funding 100 million dollar
[35] WB's funding 216.50 million dollar
[36] WB's funding 300 million dollar
[37] WB's funding 210 million dollar

Transportation	India	Bangalore Metro Rail Project – Line R6	Co-financed with EIB[38]	1785	335
	India	Gujarat Rural Roads Project	Not co-financed	658	329
	Georgia	Batumi Bypass Road Project	Co-financed with ADB[39]	315.2	114
	Oman	Railway System Preparation Project	Not co-financed	353.33	265
	Pakistan	National Motorway M-4 Project	Co-financed with ADB	$273	100
	Tajikistan	Dushanbe-Uzbekistan Border Road Improvement Project.	Co-financed with the EBRD	105.9	27.50
Energy	Turkey	Tuz Golu Gas Storage Expansion Project	Co-financed with WB[40]	2735	600
	Bangladesh	Bangladesh Bhola IPP	Co-financed with IDP[41]	271	60
	China	Beijing Air Quality Improvement and Coal Replacement Project	Not co-financed	761	250
	India	Transmission System Strengthening Project	Co-financed with ADB[42]	303.47	100
	Egypt	Round II Solar PV Feed-in Tariffs Program	Co-financed with IFC	835	Up to 210[43]
	Tajikistan	Nurek Hydropower Rehabilitation Project, Phase I	Co-financed with WB[44]	350	60
	India	Andhra Pradesh 24x7 – Power For All	Co-financed with WB[45]	571	160
	Bangladesh	Natural Gas Infrastructure and Efficiency Improvement Project	Co-financed with ADB[46]	453	60
	Azerbaijan	Trans Anatolian Natural Gas Pipeline Project (TANAP)	Co-financed with WB[47]	8.600	600

[38] EIB's funding 867 million dollar
[39] ADB's funding 114 million dollar
[40] WB's funding 600 million dollar
[41] Islamic Development Bank
[42] ADB's funding 50 million dollar
[43] Project includes 11 greenfield solar photovoltaic (PV) power plants. Costs have been estimated at USD 70-75 million per project.
[44] WB's funding 225.70 million dollar
[45] WB's funding 240 million dollar
[46] ADB's funding 167 million dollar
[47] WB's funding 800 million dollar, other IFIs(EDRB,EIB) 2100

	Myanmar	Myingyan Power Plant Project	Co-financed with ADB	300	20
	Pakistan	Tarbela 5 Hydropower Extension Project	Co-financed with WB[48]	823.5	300
	Bangladesh	Distribution System Upgrade and Expansion Project	Co-financed with WB[49]	262.29	130

Source: Retrieved from https://www.aiib.org/en/projects/approved/index.html

Among the 31 approved projects, there are 8 projects in total that are financed only by the AIIB (not co-financed by other multilateral banks). All the others are co-financed by another multilateral development bank(s) such as World Bank, Asian Development Bank and European Investment Bank. Based on the total amount of funding and the number of co-financing projects, the WB is the most crucial partner of the AIIB in these projects. The ADB comes as the next important partner of the AIIB in infrastructure financing.

In terms of co-financing, the AIIB's existing projects demonstrate strong co-operative character. Looking at the operations of the Bank so far, it is safe to say that the AIIB finances projects on its own only in a very few cases. Most of the projects are co-financed with its perceived "rivals", the World Bank and the ADB. These co-financing projects are also proof of successfully operating partnership agreements between the AIIB and the traditional multilateral development banks.

Since the primary focus point of this article is to understand whether Chinese led institutions compete or complement the traditional multilateral development banks, the contributions of the banks to each project are also compared. The analyses reveal that the contributions of the AIIB never exceed the WB's in co-financed projects. There are only 5 projects that the shares of the both banks are equal. On the other hand, total amount of loan of the AIIB is larger than the NDB's contribution only in one case. It is also the fact that the AIIB's loan share is less than 50% in all co-financed projects. It only exceeds 50% in projects where the AIIB is the only financing multilateral development bank. As a result, the AIIB appears in the co-financed projects mostly as an equal or minor creditor.

Based on these findings, it can be claimed that the AIIB works along with the existing players and does not exhibit disruptive character, at least in the short term, in contrary to expectations of some. Furthermore, as the AIIB accepts complying with the environmental

[48] WB's funding 390 million dollar
[49] WB's funding 130 million dollar

and social standards of the co-financing banks, the assertion that the AIIB will not be able to adhere to the internationally recognized ''best'' standards seems to be unfolded so far. Regardless of the reason behind this cooperative character, whether it is because of staffing constraints or to assure people skeptical of the Bank's purposes, the AIIB does not only reduce the project risk, but also gains experience through this process of co-financing.

6.2. Overview of the NDB Projects

As of October 2018, the NDB has approved 26 projects. The NDB also categorizes the projects. Unlike the AIIB, there are only three different categories in the case of the NDB. These categories are renewable energy, social infrastructure and transportation. Based on this limited classification, each sector contains various project types. For instance, transportation projects like ''Ufa Eastern Exit'' and ''Luoyang Metro'' are placed under social infrastructure category due to this broad classification.

As it is the case with the AIIB, NDB's funding to these projects differs and there is no correlation between the project sector and the total amount of NDB lending. The smallest project is the ''Para Sustainable Municipalities'' project in Brazil ($125 million total cost), the largest is ''Sustainable Infrastructure in relation to Zapsibneftekhim" project in Russia ($9424 million total cost).

When the content of the projects are analyzed, we can conclude that focal focus points of the projects are environmental protection and sustainable development. This is in line with the purpose of the bank which is described in the articles of agreement. However, there are naturally some projects which have less environmental focus like ''Judicial System Support'' project in Russia. This can be perceived as a signal that the Bank will finance projects in other areas different than sustainable development in the future.

Table 6: Overview of Approved NDB Projects

Sector	Country	Name of the Project	Type of Finance	Total Cost	NDB Funding
Social	Russia	Sustainable Infrastructure In Relation To "Zapsibneftekhim" Project	International And Domestic Banks[50]	9.424	300
	Brazil	Environmental Protection Project	Not co-financed	340	200
	South Africa	Greenhouse Gas Emissions Reduction And Energy Sector Development Project	Not co-financed	600	300
Infrastructure	China	Luoyang Metro Project	Not co-financed	2.775	300
	China	Chongqing Small Cities Sustainable Development Project	Not co-financed	568	300
	Brazil	Para Sustainable Municipalities Project	Co-Financed With CAF[51]	125	50
	Russia	Small Historic Cities Development Project	Not co-financed	275	220
	Russia	Ufa Eastern Exit Project	Not co-financed	700.8	68.8
	Russia	Judicial System Support Project	Not co-financed	601	460
Transportation	India	Madhya Pradesh Major District Roads 2 Project	Not co-financed	500	350
	India	Madhya Pradesh Bridges Project	Not co-financed	250	175
	India	Bihar Rural Roads Project	Not co-financed	500	350
	Brazil	Maranhão Road Corridor – South North Integration	With CAF[52]	190	71
	South Africa	Durban Container Terminal Berth Reconstruction Project	Not co-financed	643	200
	India	Madhya Pradesh Major District Roads Project	Not co-financed	500	350
	India	Rajasthan Water Sector Restructuring Project	Not co-financed	495	345

[50] Name of the banks are unkown
[51] Latin America Development Bank
[52] CAF's funding 77 million dollar

Renewable Energy	India	Madhya Pradesh Multi Village Water Supply Project	Not co-financed	670	470
	China	Jiangxi Industrial Low Carbon Restructuring And Green Development Pilot Project	Not co-financed	-	200 Million USD(Not Exceed 70% Of Total)
	China	Hunan Ecological Development Project	Not co-financed	3.1 billion RMB	2.0 billion RMB(300 million dolar)
	China	Putian Pinghai Bay Offshore Wind Power Project	Not co-financed	4.96 billion RMB	2.0 billion RMB(298 millon dolar)
	Russia	Two Loans To Edb And Iib For Nord-Hydro	Not co-financed	161.9	100
	South Africa	Project Finance Facility For Eskom	Not co-financed	225	180[53]
	Brazil	Financing Of Renewable Energy Projects And Associated Transmission (Bndes)	Not co-financed	600	300
	China	Lingang Distributed Solar Power Project	Not co-financed	750 RMB	525 RMB(81M dolar)
	India	Canara Renewable Energy Financing Scheme	Not co-financed	500	250

Source: Accessed on: https://www.ndb.int/projects/list-of-all-projects/

There is a striking difference between the AIIB and the NDB when it comes to financing the projects. Even though the NDB has signed couple of agreements with other MDBs to facilitate co-financing similar to the AIIB, the number of co-financed projects is really limited. Besides, none of these projects are financed in cooperation with the WB or ADB. The Bank has involved in co-financing with Latin American Development Bank only in two projects. As it is mentioned earlier, there are other actors that involve in financing these projects such as regional, central governments and private institutions. However, their contributions are not taken into consideration since it is not the focus of this paper.

Another difference between the AIIB and the NDB comes into prominence when we look into the contributions of the banks to each project. Due to self financing status of the NDB in most of the projects, its' lending is more than 50% in 17 projects out of 26. This

[53] Funding is done in local currency. Rand 2.88billion.

brings extra responsibility to the Bank when it comes to complying with social and environmental standards as it is the only and biggest creditor in majority of the projects.

The countries in which these projects take place also worth to look. As it is mentioned in the previous chapters, The NDB's purpose is described as financing infrastructure and sustainable development projects in BRICS and other developing countries. However, at the time of writing, all of the projects are located only in BRICS countries. This is contrary to bank's claim of being global in its scope and it certainly limits the influence of the Bank on global scale.

Looking at the operations of the Bank so far, we can claim that the NDB has certainly less cooperative character than the AIIB. It is not likely to come to any certain conclusion about the Bank's compliance with the highest social and environmental standards by only looking these facts. These facts do not neither mean that the NDB has a disruptive role in the existing order or competes with the traditional MDBs.

In conclusion, even though looking at the overview of actual operations of the banks provides us some useful information about the characteristics of the banks, they are not enough to reach certain conclusions about the nature of them and answer the questions of this paper. They can only play complementary role in our analyses. In this regard, actual operations of the banks will be further analyzed in the upcoming chapter.

Moreover, mostly official sources of the banks are used until now so as to understand structures, aims and procedures of the banks. Findings of the next section will be more based on secondary sources rather than the official ones in order to better reflect the reality and not to be based on one sided sources. Due to several limitations, the focus will be on the AIIB and its actual conduct of projects.

7. ANALYSES OF THE OPERATIONS OF THE AIIB

The Articles of Agreements and overview of the projects of the AIIB are analyzed in the previous sections so far. Even so examining MDBs concerning their aims, procedures and loans are among the purposes of this paper; it also aims to conduct a form of reality check through the analyses of actual bank's projects in order to see if the claims and promises of the banks are only on the paper or not**.**

As it can be recalled, supporters of the Bank claim that it will embrace sound banking principals of the existing MDBs in the areas of environmental policy, governance structure, and loan assessment (Chin, 2016). It is also mentioned in the AoA of the Bank that the AIIB shall be guided by sound banking principles in its operations.[54] Moreover, Chinese officials support these claims with their statements. For instance, China's minister of finance Jiwei Lou claims that the Bank will strive to go a step further, by improving on these practices, cutting costs, and improving on efficiency (Ling, W., Yuzhe, Z., Liwei, W., & Qing, L. 2015). The Bank proclaimed itself as lean, clean and green (Asian Investment Infrastructure Bank, n.d). These terms mean cost-effective and efficient management, zero tolerance for corruption, and having respect for the environment, respectively (Ong, 2017).

Almost completing its third year in its operations, the Bank has approved 31 projects as of October 2018. It is timely to ask whether the AIIB is keeping its promises on being clean, green and lean. If these commitments are real, the Bank may have a further impact on the traditional MDBs and can influence them to make a change within themselves. In that context, if the ''lean, clean and green'' is only a catchy slogan or a reality will be analyzed in this section.

7.1. Which Shade of Green?

Policies that multilateral development banks follow when they lend form the cornerstone of the discussions about environmental and social standards. These policies are often called as safeguards and serve to prevent and manage the economic and social externalities of the development projects. These safeguards mostly require the borrowing party to handle certain environmental and social risks in order to receive Bank's funding for projects. Consulting with the communities who will be potentially affected by the project and conducting environmental and social impact assessments can be shown as examples of these

[54] Article 13

safeguards (The World Bank, 2012). Safeguard policies emerged in the 1980s at the World Bank as a result of criticisms towards the negative effects of the investment projects supported by the Bank on people and the environment. In time, these requirements are also started to be applied by other development banks as well (Cernea, M., Thomas, V., & Berg, R., 2016).

In February 2016, the Board of Directors of the AIIB approved the Environmental and Social Framework (ESF), which sets out the safeguards that should be implemented in AIIB financed projects (AIIB, 2016b). Even before the ESF is released, during the consultation process, a number of civil society organizations and communities such as Greenovation Hub, NGO Forum on ADB, Bank Information Center and the Heinrich Böll Foundation have raised their concerns over the bank's ESF. For instance, the report of the Inclusive Development International (IDI) (2015) comments that fundamental points are missing in the ESF's draft and it would fail to function if the draft is not thoroughly revised.

One of the criticized topics in the ESF is about indigenous people. According to the IDI's report, the ESF only covers specific issues of resettlement and indigenous people. It lacks details which are crucial to guarantee prevention from harm. For example, in contrary to traditional MDBs, the ESF requires AIIB to undertake free, prior, and informed *consultation* (FPICon) rather than obtain free, prior, and informed *consent* (FPIC) of indigenous people for the bank-supported projects. It is the case unless the latter is required by the local laws. This is problematic and falls below the practices which traditional MDBs apply (Chow, 2017). FPICon, as defined by the AIIB, requires an expression of "broad community support," and specifically notes that this "does not require unanimity and may be achieved even when individuals or groups within or among indigenous people explicitly disagree with the project."(AIIB, 2016b). In that sense, it provides indigenous communities lesser entitlements and establishes a benchmark lower than the standards of other international financial institutions.

Another critical assessment is about its domestic enforcement and use of client systems. Heinrich Böll Foundation criticizes the Bank's tendency to rely on client countries' domestic ESFs in the first place. For them, this reliance may risk exposing people and the environment to serious harms especially when the countries have weak rule of law and poor governance. They show findings of Thomas and de Ferrati (2015) when they argue that the vast majority of Asian countries where AIIB projects take place have ESFs in place that are below the World Bank standards. That is why they assert that depending on client countries' ESFs and not providing policy loans and reform assistance as other MDBs do are wrong.

Other major unresolved concern of the civil society organizations is on independent accountability mechanism. It is a structure which allows people negatively affected by the bank's projects to speak up and voice their concerns (Chow, 2017). It is a really important mechanism in the sense that it helps to keep the Bank on the track in complying with its social and environmental commitments and supporting project compliance. The AIIB still does not have fully functioning oversight mechanism even though it has been almost three years since the AIIB started its operations. A draft of the structure was released for public consultation in March 2018 (AIIB, 2018). Various civil society organizations have released their comments and criticisms on the draft, especially on its scope. As we have already seen in other critiques, the Environmental and Social Policy (ESP) allows the use of a co-financier or a Client's environmental and social policies and procedures where possible. When the AIIB involves in a project as the only financer or a lead co-financier, AIIB's own ESP and Project-Affected People's Mechanism[55] (PPM) apply to projects. [56] However, in case of use of environmental and social policies of a co-financier or under a client system, the PPM review process is subject to special considerations.[57] According to the draft of Project-Affected People's Mechanism of the AIIB, the co-financier's oversight structure will be operative for handling any submissions from people adversely affected by project outcomes.[58] When we consider the fact that the AIIB is only financer (projects are not co-financed by other multilateral development banks) in eight approved projects out of thirty-one, the draft excludes the majority of projects from independent AIIB review. Elizabeth Summers (2018), infrastructure policy manager at Bank Information Center, criticizes the Bank and interprets it as picking efficiency over compliance with environmental and social standards. On the other hand, it is positive in the sense that stricter environmental and social standards will apply to AIIB financed projects, at least in its initial phase. When sufficient safeguards are not in place, adversely impacted people will have a chance to directly raise their concerns before the respective accountability mechanism of the established institutions.

However, reliance on the WB is not sufficient to ensure that the AIIB's projects comply with the all necessary social and environmental standards for Elizabeth Summers. She

[55] Name of the independent accountability mechanism.
[56] (AIIB, 2018). Section. 5.9.77
[57] (AIIB, 2018). Section. 4.3.1
[58](AIIB, 2018). Section. 5.9.78

gives an example from one of the proposed co-financed projects of the WB and AIIB to her claim, the Amaravati Sustainable Capital City Development Project. Amaravati is envisioned as the new capital city of Andhra Pradesh (AP) region in India. The objective of the project is to build sustainable urban services and the capacity of urban institutions for the new city. The local government introduced a land pooling scheme in order to implement this project. However, it led to problems. The farmers combine their lands and transfer it to the state to develop the land under this plan. In return, farmers receive an annuity for ten years, and a smaller plot of land to be transferred back after the project is completed. Complaints are filed against the implementation of this scheme to the oversight mechanism of the WB even though the WB describes it as innovative. In that context, there have been controversies and concerns about the effectiveness of the WB's safeguards (Summers, 2017).

Indeed, these controversies started when the WB's Board of Executive Directors approved a new Environmental and Social Framework (ESF) on August 4, 2016. Eight environmental and social safeguard policies including Environmental Assessment, Indigenous Peoples and the Policy on Piloting the Use of Borrower Systems for Environmental and Social Safeguards ("Use of Country Systems") were revised (The World Bank, 2012). This move has been criticized as a weakening of its environmental and social safeguards. The WB explains its motivations in its website as the emergence of new and varied development demands and challenges since the introduction of first safeguards more than 20 years ago (The World Bank, 2012). Similar to what we see in the AIIB example, the WB also claims that it will put a greater emphasis on the use of borrower frameworks and capacity building. Michael Cernea, Vinod Thomas and Rob van den Berg (2016) question the revised ESF of the WB. They claim that new safeguard policies will weaken social and environmental standards (Cernea, M., Thomas, V., & Berg, R., 2016).z As a result, despite there is a possibility for cooperation between the banks to encourage the AIIB to increase its standards, not everyone thinks the same. Bill Laurance (2016) also asks in his article if this results in opposite outcome and eventually leads to a race to the bottom.

Concerns about the greenness of the AIIB do not only evolve out of its ESF. Despite the Energy Sector Strategy (ESS) of the Bank claims that it embraces the principles underpinning the Sustainable Energy for All (SEforALL), the 2030 Agenda for Sustainable Development, and the Paris Agreement, there are many unconvinced about AIIB's commitment to tackle climate change (AIIB, 2017). Lowell Chow (2017), a representative of the Business & Human Rights Resource Centre, gives two reasons for that.

Firstly, there is skepticism about types and overall focus points of the bank's projects. When we particularly have a look at energy-sector investments made to date, it can be realized that they focus on bringing energy and electricity to rural areas, upgrading fossil fuel electricity generation, and construction/improvement of hydropower and natural gas. Only one of the approved projects is on solar power. Furthermore, these projects are mostly land intensive such as extension project of Tarbela 5 Hydropower, rehabilitation project of Nurek Hydropower and construction of a mega transboundary gas pipeline project (TANAP). Many are concerned about the impacts of these land intensive projects on biodiversity and local livelihoods(McDermott, 2018). If the right safeguards will not be operative, these projects may forcefully lead to resettlement of people from their land (Casey-Boyce, n.d).

The report of World Commission on Dams (WCD) (2000) confirms these concerns. It takes a deeper look at Tarbela Dam project and analyses it from various aspects. The report shows how a landscape has suffered extremely from the project and tens of thousands of people were displaced between the 1960s and 1990s. The report also documents significant problems with the resettlement of the project affected people. In that context, dam projects have been criticized for their devastating social and environmental impacts and it also presents a significant challenge to the AIIB. When Wawa Wang looks at AIIB's current project portfolio, he comes to the conclusion that it is not ‘‘green’’ although the Bank describes itself as it is (Wang, n.d).

Secondly, the Bank's policy towards funding coal power generates discussions. Civil society organizations have paid particular attention on whether the bank will prioritize investments in low-carbon renewable technologies or in fossil fuel energy sources like coal. The ESS lacks a clear prohibition on funding for coal and leaves the door open for it in three circumstances. Coal-fired power plants will be considered by the Bank if they replace existing less efficient systems, if they are essential to the reliability and integrity of the respective country's system or if there is no viable or affordable alternative (Asian Investment Infrastructure Bank, 2017). Even under special circumstances, it is leaving financing coal as a possibility in a time in which potential negative effects of coal are proven. A recent study of Harvard University and Greenpeace International (2017) reveals the possible destructive impacts of air pollution from coal in South Asia. Therefore, there have been disappointments about the Bank's failure to clearly exclude coal from its potential investments. Despite leaving the door open for coal in the ESS, several AIIB officials have countered claims that it could end up funding coal. During the AIIB's 2017 annual meeting in South Korea, in order to appease concerns, President Jin (2017) stated “there are no coal projects in our pipeline, and we will not consider any proposals if we are concerned about their environmental and reputational impact.” Moreover, AIIB’s Vice President and Chief Financial Officer, Thierry de Longuemar, supported Jin’s claims by saying that “There are things [the AIIB] won’t finance, like coal-fired power plants.”(as cited in Baert, 2017). So far, the bank has not directly approved projects in coal. However, the actual situation is different and the AIIB has already financed a coal-fired project indirectly through its investment in financial intermediaries (FI). In contrary to direct investments, the bank leaves funding decisions to the respective body in case of financial intermediary funding. AIIB describes FI projects in its Environmental and Social Framework. According to this definition, AIIB delegates all decision-making regarding FI subprojects, such as selection, approval and monitoring, to the FI itself, apart from those considered high-risk, in which case the bank “undertakes selective supervision and monitoring” (Asian Investment Infrastructure Bank, 2016b).

The joint report of Bank Information Center Europe and Inclusive Development International (2018) discloses how the AIIB funds coal through intermediaries. When we check the list of approved projects, it can be seen that the AIIB has financed four financial intermediaries. These are; Indonesia’s Regional Infrastructure Development Fund, National Investment and Infrastructure Fund, India Infrastructure Fund in India, and IFC Emerging Asia Fund (EAF). Among these FI investments, especially project portfolio of EAF attracts attention. Currently, the most controversial sub-project under EAF is Shwe Taung Cement Company Limited (STC) in Myanmar. The objective of the project is to double the cement production. This also means that the level of coal which will be required in the production process will automatically increase (Bank Information Center Europe and Inclusive Development International. 2018). In that regard, the project is expected to increase the consumption of coal significantly. This example demonstrates how unchecked FI investments can lead to the AIIB funding coal and other harmful fossil fuels.

We should keep in mind that the AIIB is not the only MDB investing through this way. The International Finance Corporation (IFC), the World Bank’s private sector arm, is also lending through this method together with regional development banks such as the Asian Development Bank and European Investment Bank (Inclusive Development International, n.d). Actually, various civil society organizations including OXFAM, Inclusive Development International and Global Witness have been harshly criticizing the IFC’s intermediary lending. They have also prepared a report in 2015 to show the negative aspects of this kind of lending (Geary, K., 2015). According to another report published by IDI in collaboration with BIC, Urgewald, 11.11.11 and Accountability Counsel (2016), IFC has backed more than 40 coal mines and plants between 2013 and 2016 through FIs. As a result of continuous critiques, the CEO of the IFC, Philippe Le Houérou (2018), has declared that the institution has taken significant steps to exclude coal in its financial intermediary lending.

In conclusion, it can be claimed that the AIIB has a project portfolio which is not that green as it is branded. There are definitely lacking points both in its ESF and ESS that should be improved. Civil society demonstrates an interest in pushing the Bank in that direction. The AIIB must take concrete actions to deliver on its promise to promote a green and low-carbon future. Based on this information, the AIIB is not expected to change the current multilateral development financing setting in green energy in the short term.

8. CONCLUSION

It is clear that traditional multilateral development banks are not coping efficiently with the challenges brought by current times. Some of these major problems are identified as unbalanced distribution of power, lack of resources, high level of bureaucracy and low efficiency throughout the paper. As a result, global economic governance is in flux and it goes under a process of decentralization with the recent establishment of the Chinese led multilateral development banks, namely the Asian Investment Infrastructure Bank and New Development Bank. This paper aims to assess the benefits and risks posed by the NDB and the AIIB for the existing institutions and to the system in general and find out if these newly established institutions are complementary or not in regard to economic governance. As it is already shown, there is a dissensus in literature on that topic. While they are seen as challengers to the traditional development banks by some academics, others disagree with that. In that context, governance structures of the banks, their projects, and implementation practices are analyzed in a detailed way. Furthermore, they are compared to the World Bank and Asian Development Bank in order to better reflect their resemblances and differences.

Analyses of this paper show that newly established institutions will play complementary role in short term. Despite the intense debate that accompanied their creation, the AIIB and NDB seem unlikely to revolutionize the global development financing landscape.

First of all, governance structures of the newly established institutions are very similar to the ADB and the World Bank. For instance, three-layer governance structure of the AIIB involving a Board of Governors, Board of Directors and management is very much alike to the traditional MDBs. Furthermore, AIIB's weighted voting system is modeled after legacy MDBs with the exception of the bonus votes assigned to founding members. Even though seventy-five percent of total votes have been reserved for regional member countries which grants fairer voices to the developing and emerging countries, the fact that China having veto power is not promising bigger scale of change within the general system. Based on these structures, concluding that the AIIB is completely different from the legacy international organizations would be problematic.

Secondly, organizational and operational procedures of the both banks resemble in many aspects to those of existing MDBs. When we examine and compare the procurement policies of the banks, similarities can be easily realized. In addition, they do not completely depart from the norms and practices that existing MDBs embrace. Therefore, it can be claimed that there are institutional limitations for a breakthrough.

Thirdly, by analyzing the approved projects of the Banks and looking at their operations, it can be concluded that Chinese led institutions do not fundamentally diverge from the existing institutions and work along with them. Especially in the case of the AIIB, there is strong cooperation with other international financial institutions when it comes to financing projects. Among 31 approved projects, there are only 8 projects in total that are exclusively financed by the AIIB. All the others are co-financed by another multilateral development bank(s) such as World Bank, Asian Development Bank and European Investment Bank. Based on the total amount of funding and the number of co-financing projects, the WB is the most crucial partner of the AIIB in these projects. The ADB comes as the next important partner of the AIIB in infrastructure financing. These co-financing projects are proof of successfully operating partnership agreements between the AIIB and the traditional multilateral development banks.

Aside from the cooperation among the banks, there is also no striking difference when the projects they conduct are thoroughly examined. In this paper, it is done through analyzing the reports and criticisms of various NGOs and civil society organizations. As it is reviewed in Chapter 7, it can be claimed that the AIIB has a project portfolio which is not that green as it is branded. There are definitely lacking points both in its ESF and ESS. Based on these findings, the AIIB is not expected to change the current multilateral development financing setting in green energy in the short term.

As a result, the AIIB and the NDB appear as an addition to the existing financial structure. It is safe to claim that the AIIB works along with the existing players and does not exhibit disruptive character, at least in the short term, in contrary to expectations of some.

Even though they are not expected to transform the existing multilateral development banks and global economic system in the short term, the formation of the NDB and the Asia Infrastructure Investment Bank might lead to a major shift in the overall development of economic system in the long run. This paper anticipates them to have a fundamental pressure on the established institutions in the long term due to the innovations they bring.

Firstly, the non-resident status of their Boards of Directors is distinguishing feature of the Banks. It may allow both cost saving and efficiency and set an example for traditional multilateral development banks.

The second innovation that Chinese led banks can bring is about their lending practices and mode of operations. They seek to differentiate themselves from the traditional MDBs by not attaching conditionalities to their lending such as privatization or deregulation. If they successfuly implement this goal, it can put pressure on the existing MDBs and create great impetus for change on a global level.

Even though the governance structure of the NDB follows the model of traditional multilateral development banks in many ways, it diverges from them in numerous essential points. The equal share and weight of each member country in decision making is the most outstanding feature of the governance structure of the NDB. It can be shown as the most innovative arrangement of it as it is meaningfully different from the traditional MDBs. As a result of this arrangement, no single country has veto power over the decisions or has a dominant role in the governance of the institution.

In conclusion, after examining governance structures of the banks, their projects, and implementation practices and comparing with the existing MDBs, this paper concludes that recently established Chinese led development banks are not anticipated to radically change the global economic governance in short term. There are several limitations for immediate breakthrough. On the other hand, they bring couple of innovative features and represent some distinguishing characteristics. These innovative features might essentially alter the existing practices in the medium to long term when the banks strengthen their positions in the international financial system. Thanks to these distinctive elements, they might have extensive influence on the overall system and other multilateral development banks on the long run.

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