

Asian Infrastructure Investment Bank – outlook and challenges

– A China Business Centre Public Lecture by Ambassador Linda Tsao Yang, November 13, 2015, Four Seasons Hotel Singapore

NUS Business School China Business Centre (CBC) conducted its third Public Lecture by Ambassador Linda Tsao Yang, Chairman Emeritus of Asian Corporate Governance Association, on the 13 November, 2015, at the Four Seasons Hotel Singapore. Linda was appointed by President Clinton and approved by U.S. Senate in 1993 to serve as the Ambassador and the U.S. Executive Director to the Board of the Asian Development Bank. The longest serving U.S. Executive Director at the bank, she led major policy initiatives during her 6-year tenure on governance, information disclosure, anti-corruption, and private sector participation.



CBC Director Prof Oliver Li giving an introduction



Ambassador Linda in her presentation

In her lecture, Linda highlighted four distinguishing characteristics of Asian Infrastructure Investment Bank (AIIB), in contrast to existing multilateral development banks under the Bretton Woods System:

1. It has a transparent, predetermined formula to allocate capital and voting rights. The formula, with some minor adjustment, is based on a member's GDP in current dollar (60% weight) and GDP adjusted by the purchasing power parity (40% weight). As it stands now, China contributes about 30% of the capital and is assigned 26% of voting rights. Therefore, China has the veto power on major decisions. However, if Japan joins the bank, China's voting right will drop to about 23% and thus losing its veto power.
2. It is non-exclusive. From the very beginning, invitations to join are extended to all countries. Companies from non-member countries can bid for project awards of the bank. Their nationals can apply for jobs at the bank. This is not the practice at the World Bank, the ADB, and other Bretton Woods institutions.
3. It is non-ideological. It will work with what it is, not what the bank thinks it is. More importantly, not what the bank believes it should be.
4. It has a non-resident board. This is consistent with the common practice of private

sector institutions, which will contribute to the bank's efficient operations and the control of bureaucratic practices.

Linda believes that the four distinguishing characteristics will shape the bank's culture, policies, and operations on the ground.



Ambassador Linda in her presentation



Prof Sun Bae Kim discussing the topic from an economist's view

Linda also addressed concerns raised among government circles, development community, and media such as: Whether AIIB is to undercut American-led World Bank and Japan-headed ADB? To advance China's narrowly-defined economic and foreign policy? To offload excess domestic capacity as China transforms its growth model to one based on consumption and services from the one based on fixed capital investment and exports. Linda believes that these do not justify China's launching of AIIB. After all, China already has several institutions such as the China Development Bank, China's Export-Import Bank, and the Silk Road Fund to accomplish these goals. The primary driver to launch AIIB is China's massive One-Belt-One-Road project to bind the economies of Asia and Europe covering a region with 4.4 billion people and producing 55% of global GDP. This combined Eurasian economy, with China at the core, is to anchor an evolving new global economic system in the decades to come.



A few CBC advisory committee members in the lecture



The Q&A session

She argues that China understands that plentiful funding for infrastructure projects is necessary but not sufficient to build a pipeline of high quality projects. While possessing massive experience in infrastructure building, China also appreciates the knowledge and experience from those who have worked in countries and with people of different cultural orientations. China understands the importance of having a China-led multilateral development bank to work with and benefit from the expertise of established MDBs such as

the World Bank, the ADB, and EBRD. China can build on these experiences to launch projects with a high level of efficiency and effectiveness. AIIB is a strategic arm to implement the massive One-Belt-One Road project on the ground.



Interacting with the audiences



Linda answering questions

On why the new bank focuses on investment in infrastructure and connectivity instead of poverty reduction as its peers do, Linda drew on her own experience at the ADB and China's development experience in the last 30 years and concluded that infrastructure investment did effectively reduce poverty. She quoted a Chinese saying: "Teaching the poor how to fish is better than giving them fish".

On the role of Singapore, Linda said it has many strengths to offer, especially in the service sector, such as logistic management for airports and marine facilities, development and management of industrial and business parks, management and technical services for water resources, etc. Singapore's well-regulated capital market and well capitalized banks are also in a good position to work with AIIB to access private sector sources of financing to meet the USD 8 trillion demand for new infrastructure in Asia for 2010 – 2020 (estimated by ADB in a 2009 research report). As a successful multi-ethnic, multi-cultural country, Singapore is also poised to educate and train professionals to work successfully in South and Central Asia and the Middle East, regions AIIB is to help build projects.



Dean Bernard Yeung delivering the closing remark



Dean Yeung presenting gift of appreciation to Linda

On AIIB's operations outlook, Linda was optimistic that China will have the capacity overtime to run AIIB with a high standard of transparency and governance, and address concerns raised by its skeptics. AIIB has acknowledged that it is built on the foundation of lessons learned from existing multilateral development banks and the private sector. It will

cooperate and complement existing multilateral institutions such as the World Bank, the Asian Development Bank, and others.

China Business Centre
November 17th, 2015

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