

## The Dilemma of Twenty-Six Percent: Enough to Challenge the System?

### *1. A New Global Financial Institution*

A China-led initiative of boosting the regional economy and its infrastructural foundation - the Asian Infrastructure Investment Bank (“AIIB”) - was finally launched as Prospective Founding Members (“PMFs”) signed the Articles of Agreement on June 29, 2015.<sup>1</sup> To date, 50 States have joined the new global financial institution<sup>2</sup> and the remaining seven PMFs are expected to sign the agreement by the end of this year. The largest and the third-largest economies of the world - the US and Japan - , however, decided to stay on the sidelines.

### *2. Founding*

The process of establishing the AIIB has been rather swift. Chinese President Xi Jinping suggested the initial idea in October 2013.<sup>3</sup> On October 24, 2014, twenty-one nations including Singapore, Vietnam, the Philippines, and Mongolia signed the Memorandum of Understanding on Establishing the AIIB in Beijing.<sup>4</sup> The process of gathering signatory States was facilitated when Britain joined the AIIB as the first western country on March 31,<sup>5</sup> despite the US effort to prevent her allies from joining the initiative.<sup>6</sup> Following the UK, western nations such as France, Italy, and Germany quickly took a part. From November 28 onwards, five consecutive Chief Negotiators’ Meetings were convened and succeeded in “[finalize]ing the Articles of Agreement for the AIIB.”<sup>7</sup>

### *3. Shares*

The AIIB, as its name itself suggests, will aim to put its resources and capability in “[lend]ing money to build roads, mobile phone towers and other forms of infrastructure in poorer parts of Asia.”<sup>8</sup> The Bank will “initially have an authorized capital stock of \$100 billion,”<sup>9</sup> with USD 20 billion being paid-in shares.<sup>10</sup> China is going to be the largest shareholder, “[supply]ing about 30 percent”<sup>11</sup> of the initial operating capital. Other large shareholders include India

(8.5%), Russia (6.7 %), Germany (4.5 %) and South Korea (3.8%).<sup>12</sup> Article 5 of the Articles of Agreement states that: “No such subscription shall be authorized which would have the effect of reducing the percentage of capital stock held by regional members below seventy-five (75) percent of the total subscribed capital stock.”<sup>13</sup> Therefore, non-regional actors (out of Asia and Oceania)<sup>14</sup> would be able to account for no more than 25 percent of the shares. Among non-regional participants, “Germany is the largest shareholder with 4.5 percent, followed by France with 3.4 percent and Brazil on 3.2 percent.”<sup>15</sup>

#### 4. Governance

The governance body of the AIIB is comprised of a Board of Governors, a Board of Directors, a President, and a Vice-President(s).<sup>16</sup> Article 22 lays down that the Board of Governors should represent each and every signatory<sup>17</sup> and that it must be accountable for the powers of the Bank.<sup>18</sup> Unlike the Board of Governors, the Board of Directors is composed of 12 members and hold powers to decide on the direction of the operations of the Bank.<sup>19</sup> The distribution of power within the Board of Directors is disproportionate, since 9 out of 12 represent regional signatories, while only three members are from non-regional parties. Again, similar to the shareholding structure, non-regional participants account for about 25 percent of the overall influence within the Board of Directors.

#### 5. Voting

It is regulated in the Articles of Agreement that “the total voting power of each member shall consist of the sum of its basic votes and, in the case of a Founding Member, its Founding Member votes.”<sup>20</sup> Thus, voting structure is designed to “give[s] smaller members a slightly disproportionately larger voice.”<sup>21</sup> Detailed outlining of a specific distribution mechanism of votes leads to a conclusion that Chinese voting share of 26 percent would by far be the largest and it will be followed by India’s and Russia’s vote share – 9.5 percent and 5.9 percent, respectively.<sup>22</sup>

Chinese voting share of 26 percent is not enough to grant China a formal veto power, but it provides China with a sufficient influence to exert over matters that require a Super Majority vote, or the ones that are comparatively more significant, because major decisions require 75 percent agreement.<sup>23</sup>