

Latin America and the AIIB: Interests and Viewpoints

Abstract

This essay gives insight into the interaction of the Asian Infrastructure Investment Bank (AIIB) with Latin America and the Caribbean (LAC). The AIIB has expressed a clear interest in LAC, accepting eight countries as “prospective” members pending paying-in their capital, but LAC shows almost no stamina. It is the world’s only region lacking even one paid-in member. So long as Beijing backs the request, prospective membership only requires writing a few letters. But LAC’s inertia in officially joining, by passing legislation and making their capital contribution, is puzzling, given the benefits that lie untapped. The likeliest cause is their own culture of sheer negligent short-sightedness (“let’s do it *mañana*”). This tendency to adjourn the acid test of action could be mitigated if countries in the region adopt long-term non-partisan National Development Plans to strengthen their institutional policy-making capacity. For their part, the AIIB’s Governors and Beijing, despite their initial keen interest in LAC, have had to give up nudging and adapt themselves to the Latin Americans’ labile perception of time in order to conserve their public image. They must remind LAC that only paid-in members receive financial benefits.

INTRODUCTION

The Asian Infrastructure Investment Bank is not confined to its eponymous region, but accepts members from across the world, as its “Charter does not specify that the investment itself must be located in Asia” (Lichtenstein, 2018, p. 51). The AIIB has expressed a clear interest in Latin America and the Caribbean (LAC), and has accepted eight LAC countries as “prospective” members pending receipt of their capital contributions. In chronological order of approval they are: Brazil, Peru, Venezuela, Bolivia, Chile, Argentina, Ecuador and Uruguay (AIIB, 2019a).

The AIIB vets infrastructure projects against three thematic priorities which LAC sorely needs: (1) *Sustainable Infrastructure*: green projects to help countries reach both environmental and development goals; (2) *Cross-border Connectivity*: infrastructure from roads and railways to ports, energy pipelines and telecommunication links in and between countries; and (3) *Private Capital Mobilization*: public-private partnerships of governments, MDBs, private financiers, and others to catalyse infrastructure development (SEC, 2019). The AIIB seems bespoke-fit for LAC’s needs. It is particularly noteworthy that private investors in infrastructure are more involved in LAC than in other developing regions: only 10% of infrastructure is privately funded in Asia, but over 50% in Latin America. Likewise, for the AIIB, LAC showcases the relevance of its themes. The region urgently needs deliverance from four development traps that sustainable infrastructure development could ameliorate, which “stand in the way of further inclusive and sustainable growth” (OECD, 2018b, p. 28): low productivity, social vulnerability, institutional inadequacy, and environmental deterioration.

Notwithstanding the benefits of full membership (*viz.*, access to infrastructure loans), the eight prospects have neglected to pay-in their respective capital contributions, which are very petty amounts. Most have not even begun the legislative process to appropriate the money, let alone to adjust their laws to the AIIB Articles of Agreement. What is worse is that five of these eight are putting gassy endorsements of China's Belt and Road Initiative (BRI) over paying their dues to the AIIB (see table 1). Indeed, nineteen of the twenty-four countries that recognize the PRC are now bandwagoning on the BRI, which merely promises infrastructure. If the BRI would realise its promises, the AIIB must play a pivotal role, together with other multilateral development banks (MDBs). The negligence of LAC, then, is a puzzle in search of an explanation, which this policy insight paper aims to provide.

[PLEASE INSERT TABLE 1 HERE]

INADEQUATE INFRASTRUCTURE & INSUFFICIENT LENDING CAPACITY IN LAC

Experts disagree over many things about LAC, but they do agree that it has some of the world's worst infrastructure. LAC's elites are obsessed with free trade deals, but they mean nothing without the connectivity that can move production factors and consumer products efficiently, especially across borders. Indispensable works are needed for purposes besides resource extraction for China. National and regional infrastructure must be fit for the purpose; yet in Argentina, to move sugar by rail from Jujuy in the far northwest to the port of Buenos Aires, a journey of 1,675km (1000 miles), takes 22 days: – the same time to transport it from Buenos Aires to Hamburg (The Economist, 2018). In-country connectivity failures abound, and “high logistic expenses which amount to more than half the price of delivered goods or 18% to 40% of ... GDP” are caused by substandard infrastructure (OECD, 2018a, p. 18). The transport costs of Latin American imports are twice the world average, and time in transit is twice as long as in advanced economies (ECLAC, 2018).

Analysts reckon LAC needs to invest 6.2% of GDP *per annum* in infrastructure just to meet current needs, yet hardly 2.3% is actually invested per year (ECLAC, 2017); a number so low, only sub-Saharan Africa is comparable. It is too low to catalyse social integration, high growth and prosperity (Fay *et al.*, 2017). To crown the pity, the latest figures tell that Latin America's average default rate in infrastructure finance (11.4%) is higher than Asia (7.9%) and Africa (4.7%) (Moody's, 2019). Western institutions, already risk-averse due to the woes of their 2008-09 financial crisis, insist on extra vetting to reassure their investors, adding to the expense and time on project approval.

Public investment in infrastructure is pro-cyclical in LAC, as it is everywhere: it expands and contracts along with business. This means that governments treat it like a budgeteering luxury good: – axing it first when business contracts. The voting public is often clueless about capital investment's worthiness, and so stakeholder revolts are rare. LAC's election cycles intensify its business cycles: compared to the life-cycle of infrastructure projects, official tenure is short. Projects are constantly at the political risk of being abandoned, which leaves private investors “holding the bag”. Latin America's regional development banks, the Inter-American Development Bank (IDB) and the Latin American Development Bank (CAF), see the infrastructure crisis as a direct threat to LAC's economic development potential. Both are deeply worried that even if Latin American governments have the political will to tackle the

crisis, their capital dearth would doom the endeavour. The infrastructure deficit is so enormous that neither the IDB, CAF nor the World Bank together can cover it (Mendez, 2018).

CHINA ENTERS LAC

In this situation, China's entry into development finance seemed a timely and promising solution. China is self-interested in infrastructure that cheapens and expedites extraction of raw materials from Latin America, and that employs its surplus of engineers and project managers who can supply the deficit of human capital in LAC (Bersch and Koivumaeki, 2019). Chinese policy banks (*e.g.*, China Development Bank, China Eximbank) are currently the mainstays of development financing in LAC, having provided over US\$140 billion since 2005, when they began lending in the region, more than either the World Bank or IDB (Myers and Gallagher, 2019). But "many of these projects are accompanied by environmental and social risks for communities in the project areas" (Gransow, 2015, p. 285). They tend to focus on the infrastructure of the extractive and energy sectors of the economy, to the neglect of infrastructure that might be more crucial to LAC's long-term economic and social development and welfare. Chinese policy banks are also governed by their own project sustainability standards and risk control measures, not by international criteria of project evaluation or due diligence. Consequently, quality issues have come back to haunt some of their projects.

By contrast, the AIIB is governed more by international rather than Chinese norms, and it has formalised sustainability and approached social risk management in earnest (Gransow and Price, 2019). Green projects carry a lower risk of default than non-green projects (Moody's, 2018), though it cannot be assumed that this will carry over to the LAC region, where default rates are higher. But if sustainability pays elsewhere, it *can* pay off in LAC too. The AIIB has made the leveraging of *private investors* and capital markets for infrastructure investment one of its main missions. But since *ca.* 2015, the slower rate of economic growth and the salience of corruption scandals in LAC have made private investors hesitant to commit to new projects. Measures for reducing risks to the private sector, such as new infrastructure targets and laws to enhance procurement transparency, have not allayed political uncertainty nearly enough, and economic recession is expected to deter investors for the foreseeable future (MMC and IDB, 2018). To attract private sponsors, financing needs to be restructured to minimise exposure to uncontrollable risks – something MDBs do very well.

According to Enrique Garcia, former President of CAF, institutions like the AIIB boost capital availability not only by furnishing its own capital (like the policy banks), but also by "serving as a catalyst to attract additional [private] players that can positively contribute to the region's needs".¹ Regional development banks in LAC are well aware of the potential benefits. For example, the IDB has agreed a "strategic partnership" with the AIIB in 2017, and in 2019 China's Ministry of Finance and a number of MDBs, including CAF, the IDB and AIIB, established a Multilateral Cooperation Center for Development Finance (MCDF) "as a platform to foster high-quality infrastructure and connectivity investments for developing countries" (AIIB, 2019b, p. 1; see also Chin's introduction for this collection). This cements the AIIB's (and China's) role as a vital South-South collaborator with infrastructure-

underdeveloped countries. But proactive and collective agency by regional banks will come to nought if LAC countries do not begin to engage with the AIIB more earnestly.

MAÑANA: THE ROOT OF LATIN AMERICA'S NEGLIGENCE

Foreign policy making occurs in three phases: “intentions, statements, and actions of an actor – often, but not always, a state – directed toward the external world” (Gerner, 1995, p. 18). In LAC the pervasive tendency is to engage intensely in intentions, imagining and wishing, and statements, always grandiose; while postponing till *mañana* (“tomorrow”) that last, critical phase of taking fallible action. The universal regional neglect of the simple steps required to complete membership of the AIIB is all too typical (Uruguay may be exempted for now as it has only been a prospective member since April 2019). Preoccupation with intentions and statements stems from incentives to act in the short term for office-holders’ benefit, to the neglect of long-term planning. But it is rooted also in a compulsion to adjourn intentions and endless statements, to evade any prompting to action. Procrastination till *mañana* is so widely tolerated and practised in LAC that it is hard to avoid an inference to the existence of an informal social institution.

The Institution of *Mañana* is not confined to international affairs. It can be observed even in the business culture of LAC where, in the teeth of its costly inefficiency, it inhibits the process of reaching business decisions (Grosse, 1990). The institution is not absolute – some firms in LAC are managed exceptionally well by any standard. However, it is very common, and a culturally distinctive social norm with directly observable effects on the conduct of foreign affairs in Latin America and the Caribbean. The reality is corroborated by the number of scholars who have theorised the origin of *Mañana*; e.g., it is rooted historically in the Moorish culture of Andalusia (Lewis, 2003); or it may arise from a want of internalisation of work ethic “in cultures where external locus of control operates, people tend to postpone decisions more (‘*mañana* syndrome’) than in cultures where internal locus of control operates” (de Mooij, 2011, p. 252). Not coincidentally, of the 72 countries that have completed their AIIB memberships, Spain has taken the longest – 29.5 months instead of the 18 months that Madrid agreed on 29 June 2015 (AIIB, 2015).

The author has noticed subtle differences in how some of the eight countries are influenced by the institution of *Mañana*. The first is that a lack of transparency and accountability worsens it. This is most conspicuous in Venezuela, but it also has plagued Bolivia and Ecuador. One cannot tell where the membership process is, but the few indications are, far behind. By contrast, where there is more transparency, as in Chile and to some extent Peru, more progress can be observed (although even here *Mañana* is alive and well). Both countries have advanced to the ultimate hurdle of parliamentary approval. *Mañana* may also be exploited strategically, as the author surmises Brazil is doing. Brazil signed-on to be a “prospective” founding member in 2015, but Brasilia has delayed so long as to be seemingly deploying delay like a pawn in a great power rivalry. There have been transparency gains in Argentina and Uruguay also, but in both, *Mañana* is endlessly excused as an exercising of self-sufficiency. In all cases *Mañana* may be a solipsistic form of self-affirmation, which Latin Americans often end up using against each other as much or more than with foreigners.

Institutional culture is one important factor explaining the variable lack of progress of the LAC

countries in officially joining the AIIB as paid-in members. However, some of the countries do have some countervailing factors working in their favour. Not only the major regional powers Argentina and Brazil, but also Peru and Chile in particular, have professional civil services, especially in foreign affairs, which provide continuity and institutional memory to the process. The national identities of Argentina and Brazil may also play a part in causing delay in completing membership, i.e. their aspirations to great power status make these two states less eager to follow China's lead. This holds true even under the pressure of Argentina's massive indebtedness to China, such that Buenos Aires continues to resist Beijing's overtures to it to endorse the BRI, as does Brasilia.

THE PROCESS OF ACCOMMODATION

Engaging LAC is not as simple as it sounds, and Beijing and the AIIB have learned the hard way that countries in the region do not play ball on demand. Their peculiarities have an impact on their decision-making processes. The region is complex and heterogenous, and the easy-going attitude does not translate into things running smoothly for external actors. The case of Brazil illustrates how the AIIB and Beijing (PRC) have had to accommodate LAC countries in unanticipated ways. In other cases, a process of mutual accommodation between the AIIB and Beijing, and the LAC region can be observed. Peru and Chile illustrate the latter pattern.

Brazil inaugurated LAC's participation in the AIIB, signing-on as a founding member (though only prospectively) on 28 March 2015, just three days before the deadline for submitting statements of intent (Wang, 2018). The ensuing Agreement stipulated that Brazil was to complete the process of full membership by 31 December 2016 by buying 31,810 shares at US\$100,000 each for a total investment of US\$3.181 billion (AIIB, 2015). In 2015, this amount was ambitious but feasible, but by the end of 2016 Brazil faced one of the biggest economic crises in its history, with President Dilma Rousseff being impeached on charges of corruption (Romero, 2016).

It became clear by late 2016 that Brazil would miss the deadline. Anticipating this, the AIIB's Board of Governors extended the deadline by a year to 31 December 2017 (AIIB Board of Governors, 2016). But the upheaval continued, and Brazil was forced to adapt to a drastically changed reality, putting its rising-power ambitions on ice. Brazil is a member of BRICS, also, and it decided to prioritise the BRICS-led New Development Bank, which was also launched in 2016. Brasilia quietly requested a steep reduction in its contribution to the AIIB to US\$5 million, cutting 31,810 shares to a mere 50 shares (or 636-fold!). Neither Beijing nor the AIIB could have been pleased by Brazil's request, but they moved to accommodate Brasilia nonetheless (Spegele, 2017). In doing so, both counterparties avoided the whiff of scandal or tarnishing the AIIB's winning image. On the plus side, the relinquishment of so many shares allowed their reallocation to late-comers (*e.g.*, Canada), as there is a fixed number of shares in total to bestow (see Chin's essay on membership).

Brasilia also missed the new deadline, and the AIIB Governors issued yet another extension, to 31 December 2018 (AIIB Board of Governors, 2017c), which Brazil missed, for three in a row. Again, the AIIB quietly reset to 31 December 2019 (AIIB Board of Governors, 2018a). As of August 2019, Brazil still has not deposited US\$5 million with the AIIB. According to a Brazilian diplomat, the Ministry of Foreign Affairs approved the capital contribution way back

in 2017 and moved the matter to the Ministry of Finance, where it languishes.²

Peru is another trying case to the AIIB, yet one of mutual accommodation. The first communication of Peru's intention to join was personal and enthusiastic, expressed by President Pedro Pablo Kuczynski (PPK) during a state visit to China in September 2016. Peru's Ministry of Economy and Finance (MEF) followed up with a "Letter of expression of interest" to the AIIB, delivered *via* China's Ministry of Foreign Affairs. Immediately, Peru was invited to attend the Second Annual AIIB Board of Governors Meeting in Korea in June 2017 "to deepen mutual understanding" (Gobierno de Perú, 2018, p. 128). After Peru's membership was approved on 21 March 2017, AIIB Vice-President and Corporate Secretary Danny Alexander sent another express invitation to Peru. In a third letter, noting the modalities of payment, sent on 12 April 2017, Alexander wrote in closing, "I look forward to seeing you in Jeju [Korea]" (Gobierno de Perú, 2018, p. 134). Peru neglected to attend, unlike all other prospective members from LAC: Argentina, Bolivia, Brazil, Chile and Venezuela (AIIB Board of Governors, 2017b). Its absence was noted.

According to Peruvian policymakers, Beijing's reaction was vociferous: "prior to the [November] 2017 APEC Summit, the Chinese authorities transmitted their concerns to the [Peruvian] Embassy in Beijing, for the delay in concluding the accession process and, also, for the absence of Peru at the last meeting of its Board of Governors [in Korea]".³ Chinese authorities seemed disappointed with Lima (as with Brasilia), perhaps due to their inexperience in dealing with the region on multilateral initiatives. Since then Beijing has grown quiet.

By March 2018 Peru was engulfed in a corruption scandal of enormous proportions which drove PPK from the Presidency, which led to a cratering of Peru's AIIB membership. PPK had managed to advance the membership-completion process as far as drafting a Congressional bill (MEF, 2017), but then all appropriations directives for fiscal year 2018 came under intense scrutiny. Despite its political turmoil, Peru did make some real progress towards completing membership. PPK's successor, Martín Vizcarra, submitted another bill on 24 October 2018 (Gobierno de Perú, 2018). But Peru did end up missing its original deadline of 31 December 2018. The AIIB has dutifully reset the deadline to 31 December 2019 (AIIB Board of Governors, 2018b).

Chile is another illuminating case. Historically, Chile has played a major role in LAC relations with China. It was the second country after Cuba and the first in South America to recognise the PRC; the first to recognise it as a market economy and to support China's accession to the WTO; the first to sign a FTA with Beijing (Fornes and Mendez, 2018). Chile's membership of the AIIB was broached in November 2016 by President Michelle Bachelet to Xi Jinping during her state visit to Chile. On 13 March 2017 Chile submitted a formal expression of interest, and became a prospective member on 12 May 2017, and had until 31 December 2018 to complete the formal process of joining (AIIB Board of Governors, 2017a).

By early 2018 the Chilean government could report to the author that the Finance Ministry was preparing documents to commence the legislative process in Congress. In February 2018 (more than a year ago), the necessary arrangements for buying shares were expected "in the

coming weeks”.⁴ But the Ministry of Finance did not complete its report until 9 April 2019 (Cámara de Diputados - Chile, 2019b, pp. 14-16). The process, in brief, is more protracted than even the most efficient of Latin American countries could have anticipated.

AIIB President Jin Liqun visited Chile on 22 March 2018, shortly after Sebastian Piñera succeeded Bachelet as President. Official sources report that Jin stated that the AIIB hoped for “a prompt ratification by Congress, so that Chile is the first South American country to become a member” (MEFT - Chile, 2018). Support among politicians fizzled, however, after the limelight was “hijacked” by the Belt and Road Initiative, which sounds more grandiose.⁵ Santiago endorsed the BRI in November 2018 (MINREL, 2018), whilst failing to complete AIIB membership by its original December 2018 deadline. As ever, the AIIB accommodated the delay with an extension to 31 December 2019.

Chile’s most seasoned diplomats understand the importance of completing membership. Luis Schmidt, Chile’s current ambassador to the PRC, said Chile is deeply committed to officially joining the AIIB as “an important signal strengthening the bilateral relationship but also a momentous step in the regional context”.⁶ On 2 May 2019 the appropriations bill for buying Chile’s shares passed the Chamber of Deputies on 18 July 2019 by 101 votes to 0 (Cámara de Diputados - Chile, 2019a). The bill has moved to the Senate for the second constitutional procedure to complete. So much progress has been made, more than any other LAC country, that it is likely, though not assured – *mañana* is everywhere in Latin America – that Chile will become LAC’s first full AIIB member-state.

WHAT NEXT?

LAC countries must awaken from *Mañana* and act promptly without waiting for others to act first. Peru moved quickly at first with the official procedures to join the AIIB, but then the process slowed, and it took over 20 months just to introduce legislation. In contrast, Lima was more prompt in endorsing the BRI with fanfare and submitted the associated legislation almost simultaneously. Currently, it is the Uruguayans who show the most enthusiasm about the AIIB. In discussions with the author, officials sounded confident they can complete the process of joining officially by 31 December 2019, and even whilst holding Presidential elections in October.⁷ Given LAC’s track-record, this sounds like a rosy scenario.

The tendency to endlessly postpone the acid test of action could be reduced if Latin Americans upgraded their institutional policy-making capacity by adopting long-term, non-partisan National Development Plans (NDPs), which the OECD stresses is the “key starting point to prioritise policies and adopt a ... comprehensive approach to move from vicious circles to virtuous circles of development” (OECD, 2018b, p. 150).

The AIIB could continue to engage the region and quietly by clarifying that the AIIB is not the BRI; and that the Bank is not China but a multilateral organisation of its own. However, it must reiterate that prospective members receive no financial or development benefits whatsoever. It has repeatedly adjourned prospective members’ deadlines, but this cannot continue indefinitely. To shield its reputation, it should consider whether a “prospective” member that is unwilling to meet its obligations in a timely way should have its status suspended.

Beijing could also help by refocusing away from the BRI, now that 19 countries in LAC have endorsed it, and instead, nudge LAC countries toward the AIIB. It could remind them of the AIIB's potentially pivotal, *multilateral* role in delivering connectivity infrastructure and sustainable development in LAC, not just by providing capital but also by ensuring quality, mitigating risks, and encouraging private capital to also invest in infrastructure in the region.

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¹ Author's interview with Enrique Garcia, former President of CAF: La Paz, Bolivia, 23 June 2019.

² Author's interview with an unnamed Brazilian diplomat: undisclosed location, 9 March 2018.

³ Written communication to the author from the Peruvian Ministry of Foreign Affairs (MRE) via Peru's Embassy in London: 15 February 2018.

⁴ Written communication to the author from the General Directorate of International Economic Affairs (DIRECON) of the Chilean Ministry of Foreign Affairs via Chile's Embassy in London: 8 February 2018.

⁵ Author's interview with an unnamed Chilean diplomat: undisclosed location, 29 November 2018.

⁶ Author's interview with Luis Schmidt, Chile's Ambassador to China: Beijing, China, 30 October 2018.

⁷ Author's personal communication with an unnamed Uruguayan diplomat: undisclosed location, 21 June 2019.