The Asian Infrastructure Investment Bank comes knocking on Latin America's door: is anyone home?

Although Latin America provides a third of the AIIB's prospective members and co-financing is desperately needed, the region has been slow to respond to the bank's repeated overtures, writes **Álvaro Méndez** (LSE Global South Unit).

Every year in late March or early April, the Board of Governors of the Inter-American Development Bank (IDB) holds its annual meeting in one of its member countries. This year it took place in Mendoza, Argentina. Next year, in 2019, the annual meeting will be held in China, even though that country is a non-borrowing member of the IDB (and only since 2009).

The Asian Infrastructure Investment Bank has been knocking on Latin America's door for a number of years (Kent Wang, CC BY-SA 2.0)

The Inter-American Development Bank returns to Asia

While this will not be IDB's first meeting in Asia – as it follows Japan in 2005 and Korea in 2015 – it will be the first in China. This momentous decision is definitely strategic, because despite being based in Washington, the bank has long been looking to China for co-financing opportunities.

In 2012, "the IDB and the Export-Import Bank of China established a Latin America-focused joint investment platform … targeting infrastructure projects, midsized companies, and … agriculture and extractive industries; [with] up to $1.8 billion in combined funding". In 2013 the bank inaugurated the China Co-financing Fund for Latin America and the Caribbean with the People's Bank of China to foster public-private investment and encourage sustainable growth.

Co-financing is direly needed for capital-intensive infrastructure, in which Latin America is notably deficient. To bridge the gap to the region's economic potential, even conservative estimates suggest Latin America would have to invest 6.2% of GDP annually. The UN Economic Commission for Latin America and the Caribbean (ECLAC) reports that Latin America barely spends 2.3% of GDP, representing "a marked difference from the investment in Asia or the Middle East, and little more than sub-Saharan Africa". ECLAC see this as a threat to the region's prospects for development.

It is in this context that the IDB invited a very important guest to Mendoza: the Asian Infrastructure Investment Bank (AIIB). The two banks signed a strategic partnership agreement a year earlier, cementing China as a vital South-South collaborator in financing countries with "important infrastructure deficits … where the need for capital is much greater than [the IDB] or the AIIB alone can serve".

The emergence of the Asian Infrastructure Investment Bank

The AIIB officially opened its doors for business in 2016 as a multilateral development bank based in Beijing. Sometimes called "China's World Bank", it has been the "talk of the town" in international relations circles since it was rolled out by President Xi Jinping during the 2013 Asia Pacific Economic Cooperation Summit in Indonesia.

The Chinese then persuaded many important nations to join the bank in the face of US – and to a lesser extent Japanese – displeasure. Aggressive US lobbying to "ensure membership in the bank would be limited to smaller countries" claimed that the AIIB would undercut established lending standards on human rights, accountable procurement, and environmental sustainability, but the UK's accession on 12 March 2015 showed how little traction this argument had achieved.

The AIIB has signed cooperation agreements with other major lenders like the World Bank (Joy Asico / World Bank, CC BY-NC-ND 2.0)

Today, its largest shareholders are the most important states in both Asia and Europe: China, India, Russia, the UK, Germany, France, Switzerland, Italy. The US and Japan remain stranded sullenly on the sidelines as the AIIB continues to expand its membership, which currently stands at 64. It has cooperation agreements in place with the World Bank, the Asian Development Bank, the IDB, and most recently the African Development Bank.

The AIIB and Latin America

The AIIB has expressed a clear interest in accepting Latin American countries as members, and last month President Jin Liqun and Vice-President Sir Danny Alexander visited Chile to make sure this message was coming across.

There are currently no full member-states from Latin America, but seven countries have been accepted as "prospective members" pending transfer of their capital subscriptions: Brazil, Peru, Venezuela, Bolivia, Chile Argentina, and Ecuador (in chronological order of approval).

The region's participation will be extremely modest, even taken jointly: only US$414.7 million, or 4147 shares out of 959,991. This represents less than half of the participation of Canada alone, the only other member from the Americas, which holds 9954 shares (US$995.4 million).

While all of these countries proactively sought invitations, they have been tardy in paying their membership dues. It is notable that in a region containing a third of the world's prospective members no Latin American country has yet provided its subscription capital in full (see table 1, below).

	PROSPECTIVE MEMBERS AIIB (Latin America)	SHARES	ACCEPTANCE DATE	COMPLETION DUE	TOTAL SUBSCRIPTIONS Amount (USDm)	Projected Share of Total*	PROJECTED NUMBER OF VOTES**
1	Brazil	50	29/06/2015	31/12/2018	5	0.00509%	2300
2	Peru	1546	23/03/2017	31/12/2018	154.6	0.15737%	3196
3	Venezuela	2090	23/03/2017	31/12/2018	209	0.21274%	3740
4	Bolivia	261	13/5/2017	31/12/2018	26.1	0.02657%	1911
5	Chile	100	13/05/2017	31/12/2018	10	0.01018%	1750
6	Argentina	50	16/06/2017	31/12/2018	5	0.00509%	1700
7	Ecuador	50	19/12/2017	31/12/2018	5	0.00509%	1700
	Subtotal	**4147**			**414.7**	**0.42213%**	**16297**

*Table 1: Potential participation of Latin American members in the AIIB. *Author's calculations assuming all 20 prospective members accede; **Author's calculations assuming accession of all prospective members, regional and otherwise.*

Brazil began as a major founding member, pledging to subscribe over US$3 billion, which would have constituted fully 3% of AIIB's total capitalisation. But at that point Brazil had just paid US$10 billion to the New Development Bank (or BRICS Bank) and soon after the country became engulfed in an economic and political crisis, ultimately proving unable to meet the 31 December 2016 deadline to complete its membership. Though the deadline has been extended twice – most recently to 31 December 2018 – it is highly likely that Brazil will fail to meet its commitments once more, and this despite having downgraded its participation massively, from US$3.18 billion to a paltry US$5 million.

Chile, by contrast, has taken the bull by the horns and is set to become the first Latin American state to achieve full membership. Argentina is expected to follow suit, but the rest of the region's prospective members appear to be moving very slowly towards actual completion.

Why such egregious delay from Latin America?

Though the reasons for Latin America's tardiness in fulfilling these financial commitments merit further investigation, history teaches us that Latin American politicians and their appointees love to be on the inside for its own sake, even where not deriving any clear material benefit.

Apart from Ecuador, which was not a prospective member at the time, and oddly Peru, all of these prospective members attended the Second Annual Summit of the Board of Governors in Korea in 2017. For one thing, "summits are seen as a kind of 'English Club', open only for a select group of prestigious members, whose membership is a sign of status and perfect for informal contacts and lobbyism", and they also afford unique "photo ops" with other bigwigs from Very Important corners of the world.

Actually ponying up the cash is much less enjoyable. It may be as simple as that.

Notes:
- *The views expressed here are of the authors and do not reflect the position of the Centre or of the LSE*
- *This article draws on the contributor's co-authored book The China-Latin America Axis: Emerging Markets and their*

Role in an Increasingly Globalised World (Palgrave Macmillan, 2018)
• Please read our Comments Policy before commenting

Álvaro Méndez – *LSE Global South Unit*
Dr Álvaro Méndez is the co-director of the LSE Global South Unit. He is a Senior Research Fellow at the LSE, a Research Associate at the University of Bristol, and a former editor of Millennium: Journal of International Studies at the LSE. Dr Mendez is also an associate academic of the LSE Latin America and Caribbean Centre, an International Advisory Board member of the Observatoire Politique de l'Amérique Latine et des Caraïbes (OPALC) at Sciences Po, and a Senior Research Fellow at Fudan University, where he is investigating the role of AIIB in Latin America. He is the co-author of The China-Latin America Axis: Emerging Markets and their Role in an Increasingly Globalised World (Palgrave Macmillan, 2018).

April 27th, 2018 | Featured, Geopolitics and international relations, LAC and the World | 0 Comments