

## **Check Against Delivery**

### **Bridge Forum Dialogue held at European Investment Bank, Luxembourg July 4, 2019**

#### ***The AIIB and Cooperation between Europe and Asia***

##### **Introduction**

Vice President, distinguished guests,

Thank you for the kind introduction, Andrew. The AIIB and the EIB are forging a strong partnership and we are grateful for your advice and support in the early stages of our new Bank. Among many other reasons why we are delighted to be bringing the AIIB annual meeting to Luxembourg is the opportunity it provides to deepen our co-operation yet further.

I am honoured to be invited to address this prestigious forum. I would like to tell you something about the Asian Infrastructure Investment Bank, the first new multilateral development bank of the 21<sup>st</sup> Century, and through that lens to offer some thoughts about the future of co-operation between Asia and Europe.

We are very grateful to the government of Luxembourg for hosting our fourth Annual Meeting, which takes place next week. It is a huge joint effort. It will bring together AIIB's Governors, Directors, management and staff to engage with our members, partner institutions, business, civil society and experts from a range of fields. We look forward to a constructive discussion on our theme of Cooperation and Connectivity, and I hope to see many of you at what promises to be a highly successful event.

I would especially like to pay tribute to the vision, leadership and commitment of Pierre Gramenga. Thanks to his work, Luxembourg was the first EU country to commit to joining the AIIB and now is the first European host of the annual meeting. Many European countries made a significant political and financial commitment to joining the AIIB and this annual meeting is a welcome opportunity to present the considerable progress we have made to European taxpayers. The core values of the AIIB are 'lean, clean, and green' and this is also a perfect description of Luxembourg. Thank you, Minister.

It is fitting in a larger sense, too. Luxembourg is the host for many European institutions. We are an Asian Bank but, thanks to the commitment of so many European countries, we are a European institution too. European ideas are embedded in the good governance of our Bank, in the way we work every day, in the goals we are trying to achieve.

The notion of multilateralism, of co-operation between nations based on commonly agreed rules, according to law, with strong governance to guarantee a level playing field, is more deeply embedded in the daily life of this continent than anywhere else in the world.

That idea provides the most effective way for the countries of our world to work together, to solve common problems, to address the many complex challenges facing our planet. The AIIB has been created in an age when those ideas are under threat. I am proud that the AIIB has already taken its rightful place among the family of multilateral institutions, with the highest standards of governance, with high quality standards in everything that we do.

I have held the role of Vice President of the AIIB since it started work in early 2016. Prior to that I was for five years Chief Secretary Treasury in the UK, working in the coalition government to repair the damage after the 2008 financial crisis and restore order to the UK's public finances. One of the last major decisions the coalition made was for Britain to join the AIIB.

### **Deepening Multilateral Cooperation**

The idea of establishing a multilateral institution to help finance infrastructure in Asia was first proposed by the Chinese President Xi Jinping in the autumn of 2013. By the spring of 2015, 57 countries - largely from Asia and Europe, but also Brazil, South Africa and Egypt - were taking part in the negotiations to write the Bank's Articles of Agreement and eventually become our founding members.

When the idea was first put forward, there were some sceptics. They worried that the AIIB was being established to undercut existing international standards and norms of multilateral governance; to provide unfair competition to the World Bank and others; and that it would be dominated by China.

We in the UK and I know in Luxembourg shared the view - put into stark relief by the financial crisis - that inadequate infrastructure is one of the key constraints on sustainable economic growth and development, particularly in developing countries but also in some developed countries. And we felt that the best way to help this new institution to succeed was to engage actively in shaping it. I am pleased to tell you that the process of forming the AIIB and its first years of operation have proved the sceptics wrong.

Those of you who have worked with the European Investment Bank or the European Bank for Reconstruction and Development would recognise many familiar features. We have formed strong partnerships with these institutions and with the World Bank and others - for example financing projects together. And we have had the opportunity to learn from their experiences.

Our mandate is to finance infrastructure projects that support the sustainable economic development of Asia, as well as to foster deeper international co-operation to support that aim. Unlike other MDBs, our focus is solely on 'infrastructure and other productive sectors.' We don't

have a wider anti-poverty mandate - nor do we offer concessional finance. Instead we believe that investment in infrastructure and improving regional connectivity will help to raise living standards and improve access to basic services. We hope this focused remit will help us to be efficient and effective, making decisions quickly without compromising our high standards. And with a huge infrastructure financing gap in the region, additional financial firepower is much needed.

We can deploy a wide range of instruments - including sovereign and non-sovereign loans, equity investments, and guarantees - some of which we have made use of so far. Our members have endowed the Bank with \$100 billion equity capital to carry out these functions.

We have partnered with the EIB to co-finance a USD 900 million investment [EIB USD 583m; AIIB USD 335m] in a new metro railway line in the Indian city of Bangalore. The railway line is part of a comprehensive plan by the Indian government to ease congestion and reduce pollution in major cities. We have co-financed several other projects with institutions such as the European Bank for Reconstruction and Development and the World Bank. While standalone projects will be the majority of our financings in future, co-financing will continue to be an important way to learn, develop capacity, share expertise and share risks, especially in large and complex projects.

**Earlier, I** summed up our core values as 'lean, clean and green.' (sometimes mistranslated as lean, clean and mean!). Let me say a word about each of these.

**Lean** means that we are setting out to build a Bank that uses our shareholders (taxpayers) money effectively and efficiently and tries to avoid becoming complex, slow and bureaucratic.

We aim to be a learning institution which, we believe, will allow us to continuously evaluate and change what isn't working, to continuously improve to be the best institution we can be. We hope this will promote a culture of innovation.

As we develop, making the best use of modern technology will be crucial to how we operate, as well as to the infrastructure we invest in. We are now working on an AIIB ICT strategy and, thanks to the strong commitment of the Luxembourg government, this will also feature prominently at next week's meeting.

Time will tell if we can be successful, and there is much to learn from private sector experiences. We are today relatively small, with only 230 professional staff in our Beijing HQ, and obviously this number will grow significantly as the programme grows in the years to come.

The **second core value, clean**, refers to good governance and the high standards we apply to our projects.

The highest decision-making organ in the Bank is the **Board of Governors**, the finance ministers of our member countries, who will meet here in Luxembourg next week. They take the most important decisions. Asian countries have three quarters of the shares; non-Asians one quarter. Our largest shareholders are China, India, Russia, Indonesia, Korea, Australia, Germany, the UK, and France. European Members currently represent 23% of voting power within the Bank. Only a very few decisions - like increasing capital - have the highest voting threshold, requiring the support more than 2/3 of the members and 75% of the shares.

At the next level we have a **Board of Directors**. Unlike most other MDBs **our Board of Directors is non-resident** - they meet four times a year and at other times they meet virtually. The Board is chaired by its Chairman and the Bank's President, Jin Liqun, and generally operates by consensus among the 12 Directors. As well as the President, the senior management includes 5 Vice Presidents, three are European.

European Members are represented on the Board by two Directors. One representing a constituency of Eurozone countries, the seat currently held by Austria, and a second Director representing non-Eurozone countries, currently held by the UK.

As well as being more efficient - a non-resident board is considerably cheaper to run - it allows a very clear division of responsibility between Board members and management. The Board decides on policies, strategies, and the Bank's risk appetite and holds the management accountable for the operations of our Bank. This is reflected in our innovative accountability framework which, among other things, delegates the authority to approve projects to the President, subject to certain conditions. We've also innovated by bringing in experienced external members of the Board's audit and risk committee.

**Clean also refers to the high international standards** that we apply to how we select, develop, and implement the projects that we finance. Not only does working this way lead to more good projects and fewer white elephants, it is also crucial to developing projects that can be attractive to the private sector.

In the AIIB's case, we require our projects to be financially sound - to be bankable and to offer demonstrable economic benefits to the recipients and to be consistent with the recipients' debt sustainability profile. We have strong environmental and social safeguards, agreed by our board and equivalent to those of the World Bank, rigorous anti-corruption policies, and a complaints mechanism for project-affected people.

Finally, we require projects to practice open international procurement on a level playing field. Projects are closely monitored to ensure these requirements are met.

Another innovation in the AIIB, is the Complaints-resolution, Evaluation, and Integrity Unit. This combines three functions that are often held separately in other institutions, in a team that is within

the Bank but reports directly to the Board. This means that it can promote learning and knowledge within the Bank and help to ensure problems are anticipated and prevented - and not just examine mistakes after the fact.

As we build the institution we strive to remain open and transparent, and to publicly engage on complex policy issues. For instance, the Bank conducted a public consultation on its Energy Strategy – an issue which drew a lot of interest and brought forward a wide range of views.

High standards also apply to our recruitment. AIIB does not favor any nationality and recruits strictly on merit. Nationals of countries that are not Members of AIIB are welcome to apply for jobs and, indeed, several nationals of countries that are not our Members are currently employed by the Bank.

Our Bank came into existence just a few weeks after the Paris agreement was signed (all our members remain committed to it) and shortly after the Sustainable Development Goals were agreed. We see a major role for the AIIB to support our members to invest in infrastructure that supports these global goals. **That's why green is alongside clean and lean as one of our core values.** As Nick Stern has argued, in the next 20 years the world will be decisive in whether we can win the battle against climate change. The creation of the AIIB is timely, and we have a responsibility to deliver. I will share more about the Bank's green investments shortly.

### **AIIB – Progress So Far**

So, after three and a half years, how are we getting on?

Since AIIB began operations in January 2016, we have approved over USD8 billion of investments in 40 projects across 16 Member countries. These are largely in the core areas of our strategic focus: connectivity, sustainable infrastructure, and private capital mobilization. India is the largest recipient, with 25 percent of our lending; other major borrowers are Indonesia, Turkey, Azerbaijan, Egypt, Pakistan and Bangladesh. In 5 years' time our annual commitment should be \$10bn+ per year, so there is a lot of growth to come, but this is a good start in our first 3.5 years.

In 2017 the Bank received Triple A credit rating from all the major credit rating agencies, confirmed each year since then. In May the AIIB priced its first global bond. The five-year bond raised USD 2,500,000,000 at an identical price to the World Bank, reflecting strong investor appetite and confidence.

Lastly, our membership has grown to 97 approved members, on every continent. Our members now cover 78 per cent of the world's population; 63 percent of GDP; and 75 percent of global carbon emissions.

### **Asian Growth and Infrastructure Needs**

It is sometimes said that the 21st century will be the 'Asian century.' The figures certainly bear out the impressive growth that Asia has seen in recent decades - and it is forecast to continue. The OECD estimates that "Emerging Asia" – Southeast Asia, India and China, will grow at an average of 6.3 per cent annually until 2022.

India, the Philippines, Vietnam and Thailand are projected to grow faster than in recent years.

Asia is in the middle of a historic transformation. If it continues to follow its recent trajectory, by 2050 its per capita income could rise sixfold in purchasing power parity (PPP) terms to reach Europe's levels today. It would make some 3 billion additional Asians affluent by current standards. According to the ADB's Asia 2050 report, Asia's share of world of GDP could reach 52% by 2050.

We also know how important investment in economic infrastructure is to development. Our analysis suggests that infra investment is nearly twice as important for economic growth in developing countries as for developed countries. It certainly seems intuitively correct that investment in economic infra, alongside human capital, should be the major drivers of development.

Yet in Asia, the scale or the need is also huge. The Asian Development Bank estimates the scale of Asia's infrastructure needs to be \$1.7 trillion per year, including climate related infrastructure. Perhaps a little more than half of that number is actually being financed today.

Between now and 2050, another 1.2 billion Asians are forecast to move into cities. The quality of the infrastructure will be a major determinant of whether those cities are livable, breathable, functioning places. And activity in Asia - including the type of infra we invest in - will be crucial to whether or not the world is to meet the challenge of climate change. Asians, sadly, will be among the worst affected if we fail.

The United Nations Intergovernmental Panel on Climate Change has projected that people in coastal regions of Asia, particularly those living in crowded cities, could face some of the worst effects of global warming. Hundreds of millions of people are likely to lose their homes to flooding and rising sea levels. Droughts will further erode food security in already vulnerable countries.

Nor are these risks, challenges, and opportunities only for Asia. Europe and Asia share one landmass. Call it Eurasia, or what some geographers have called the 'world island'. The activities of people at one end of this landmass have a great effect on those at the other, so these challenges are Europe's challenges too. There is - or should be - a common interest in a greener, more prosperous Asia for people in Europe too.

So, there is a great opportunity, and a great need. But emerging market investment is also vulnerable to economic and political uncertainty, and there is a lot of that about at the moment.

Our Asian Infrastructure Finance Report published earlier this year looks at the experience of the eight largest infrastructure markets in Asia in 2018 and found that the rising geopolitical uncertainty - including from trade tensions - had resulted in a **modest downturn in private sector investment in infrastructure**.

If anything, this simply reinforces the importance of multi laterals like the AIIB. We have unique advantages to promote sustainable infrastructure development, even in more turbulent times. These include:

- deep relationships with and strong support from our member countries
- a strong commitment to good governance and high project standards and the ability to exemplify and share good practices, including in markets where these features may be less developed
- the ability to invest for the long term, counter cyclically, and in support of global public goods - particularly, in this era, to counter climate change

### **Opportunities for Europe**

Asia's growth presents a great opportunity for Europe. Asia and Europe are now leading trade partners, with \$1.5 trillion of annual merchandise trade, overtaking each continent's trade with the United States. Foreign direct investment (FDI) between Asia and Europe reaches close to \$90 billion annually. China of course is Europe's largest economic partner in Asia, but India, Russia, Korea, Mongolia and Singapore are all significant<sup>1</sup> and growing.

In the lead-up to our Annual Meeting, eight events were held in different European cities, in which experts discussed infrastructure challenges in Europe and globally. I participated in several of the events and learned a great deal about how European and Asian governments and firms are cooperating. Portuguese waste water companies, for instance, have operated successfully in Latin America and Africa, and are now moving into Asian markets. Icelandic firm Arctic Green Energy Corporation last year received financing from the Asian Development Bank to develop the world's largest geothermal heating district in northern China, in partnership with Sinopec.

Luxembourg is open to Asia and has positioned itself to benefit from Europe's growing trade with the continent. China is the world's second largest market for green bonds, and you have become a financial center for green bond issuance: half of the green bonds issued worldwide are listed on the Luxembourg Green Exchange<sup>2</sup>, the world's first trading platform focused exclusively on green bonds. You have established data channels to green bond exchanges in Shanghai and Shenzhen

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<sup>1</sup> <https://www.weforum.org/agenda/2019/05/ways-asia-and-europe-together-connected/>

<sup>2</sup> <https://www.luxembourgforfinance.com/news/green-bond-issuers-find-global-market-in-luxembourg/>

that are helping the market work more efficiently and strengthening green bonds as an asset class. Luxembourg is also an air cargo hub for trade between Europe and China, with growing partnerships between Luxembourgish and Chinese cargo airlines.

### **Connectivity**

While near-term challenges persist, our Asian Infrastructure Report also found that infrastructure projects focused on cross-border connectivity present significant investment opportunities and are vital for long-term growth.

The development of **renewable energy transmission** grids across South and Southeast Asia, will ultimately save billions in energy expenditure, and the development of overland freight corridors through Russia and Central Asia to Europe would cut transit times in half compared to shipping routes.

Most Asia-Europe cargo is transported by sea<sup>3</sup>, but rail transportation is growing fast<sup>4</sup>. AIIB is well positioned to lead investments in rail connectivity between Europe and Asia. Our members include **Russia**, through which the key Trans-Siberian route, that carries the greatest freight volume, passes. There are also growing opportunities on other Europe-Asia routes: increased regional rail connectivity in Central Asia has the potential to bring about more Europe-China trade and to integrate Central Asia with various regions, and AIIB is studying projects in this category.

Our Transport Strategy focuses on economically viable roads, rail and ports, and we are developing an ICT strategy to help our members reap economic benefits from connectivity focused investments.

One of the major difficulties in many developing countries is to turn self-evident needs into bankable projects that can be financed. Multilateral institutions have a crucial role here too. The World Bank and the Asian Development Bank have for years worked successfully to build capacity in countries and advise on policies. There is no need for the AIIB to duplicate this work, but we do see a role in helping to develop more projects, and we have already **established a special fund for project preparation** that offers grants to help prepare projects in lower income countries.

### **Sustainable Infrastructure**

I mentioned earlier that we have set out three thematic priorities to guide our review and selection of projects. In addition to Cross Border Connectivity and Private Capital Mobilization, AIIB prioritises **Sustainable Infrastructure**. We have pledged to support our Members to meet their carbon reduction commitments under the Paris Climate Agreement. This is a challenge which can only be met through global cooperation and collaboration.

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<sup>3</sup> <https://www.csis.org/analysis/rise-china-europe-railways>

<sup>4</sup> <https://www.railfreight.com/specials/2018/12/24/eurasian-rail-traffic-in-2018-heading-to-a-million-teus/>



We aspire to develop innovative ideas that can help our Members to become more energy efficient and to increase their share of renewable energy. As the world's largest investor in renewable energy globally, China's leading role in AIIB gives us a good opportunity to learn from innovative projects in China to the benefit of other developing economies in Asia.

Our energy strategy - approved by our Board in 2017, sets out a clear framework for AIIB to invest in energy projects that will increase access to clean, safe and reliable electricity for millions of people in Asia. Our initial focus will be on projects in renewable energy, energy efficiency, rehabilitation and upgrading of existing plants, and transmission and distribution networks. For example, we have invested in solar power in Egypt, upgrading hydro power in Pakistan, Tajikistan and Nepal, and upgrading power grids in India and Bangladesh.

### **Global Context**

Finally, I would like to step back a little and situate the development of the AIIB in the wider global context.

In addition to the Multilateral Development Banks, there are a wide range of initiatives to invest in infrastructure around the world right now. There are several multilateral initiatives working towards strengthening cross-border connectivity within regions or subregions, such as the Asia Africa Growth Corridor, ASEAN and CAREC [Central Asia Regional Economic Cooperation]. There are initiatives by the European Commission, the USA, and of course there is the Belt and Road Initiative.

Let me also take a moment to explain the difference between the AIIB and the Belt and Road Initiative. The proposal to establish the AIIB originally came from China (and should be applauded) and the BRI is a policy initiative of China. The AIIB is a multilateral financial institution, owned by and accountable to every one of our 97 Members, who have collectively given the Bank its mandate and set our policies. We are part of the rules based international system through which countries work together within an agreed legal framework to try to address common challenges.

The AIIB considers each project on its own merits according to our strategic goals and policy requirement - what matters to us in every case is only the quality of the project, its fit with our strategy, and its compliance with our standards and policies. We do not look at labels - only at the quality of the projects themselves.

The overarching principles of BRI are sound: upholding dialogue and consultation, joint contribution, and shared benefits, and to the extent that it will help to bring forward more projects that meet our high standards and support economic development it is very welcome. Indeed, we see a useful role in this context for the AIIB to advocate for and share knowledge about the international standards the we apply.

AIIB is already engaging with Chinese lenders and companies on environmental and financial sustainability to share what the Bank has learned since it was established. We have held summits and learning sessions with other partners and Chinese companies about developing and implementing high quality projects. These activities mirror those of some of our European Members. The UK for instance launched a Green Finance Initiative in 2017 to develop sustainable finance at home and abroad and last year published a set of green finance guidelines for belt and road projects, in collaboration with China's Green Finance Committee.

We see a growing interest in the application of commonly accepted international standards. At the Belt and Road Forum in Beijing earlier this year, green finance principles were launched and a new debt sustainability framework for Belt and Road was published. These are all very welcome developments.

The AIIB will continue to work with partners across our member countries to support good governance and high standards - because projects developed in this way are more likely to lead to positive social and economic outcomes, be more attractive to private sector investors, and will result in a wider range of partners whom Banks like ours can work with.

The development of these various initiatives to support connectivity in Asia have a great deal of potential to be good for the region. But we need to find a way to ensure they complement one another in a positive way. Multilateral institutions like the AIIB, the EIB, and indeed the European Union, provide important examples of the right way of doing things. Quality infrastructure that supports sustainable development benefits everyone. With so many initiatives in this space, there is a shared responsibility to ensure the whole is greater than the sum of its parts.

What lessons can we learn from the AIIB experience so far for the wider question of co-operation between Europe and Asia? The experience of the AIIB shows that new sources of leadership can also help to enhance the multilateral system, according to established rules and norms, especially when there is high degree of engagement from around the world. Positive engagement from European countries from the start, despite some political headwinds, was very important to the AIIB's success. Put another way, our experience shows that an institution initiated by China, but with a focus on the entire Asia region, can help to strengthen global economic cooperation and integration, especially when there is a high degree of engagement from around the world.

The AIIB is an excellent example of China taking a leading role to strengthen economic cooperation and integration across Asia. Importantly, it is also an example of Asian and non-Asian economies, including 20 European nations, collaborating to build an institution that adheres to the highest international standards of governance and transparency in project selection and development. That is why the AIIB has, from the start, demonstrated an unbreakable commitment to high standards and good governance.

Finally, I want to return to where I started: multilateralism. Some people will argue that multilateralism is in decline. I do not believe that, but it is certainly under attack. With all the bad news we see every day, it is easy to forget that the world today is more prosperous and more peaceful than it has ever been in recorded human history. That did not just happen, it was the result of people finding an orderly, respectful and productive way to co-operate with each other, for the common good.

Perhaps new institutions that are well justified, and new sources of leadership reflecting the world as it is today, can help to sustain and develop multilateral co-operation for future generations. For Europe, that is a goal worth fighting for. The experience of AIIB suggests that it can be achieved, and that is the message of hope that I want to leave you with.

Thank you.