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## **Master thesis**

### **The Global Expansion of AIIB**

Why have Latin American countries joined the AIIB?

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## **Abstract**

As the first multilateral financial institution initiated by China, the AIIB was formally established in late 2015 and has continued to expand globally. Among the more than 100 members who have joined the AIIB, countries from Latin America are very important. Argentina, Brazil, Chile, Ecuador, Peru, and Uruguay are non-regional members of the AIIB, while Bolivia and Venezuela are still prospective members. The development of the AIIB has been questioned and hindered by factors represented by the U.S. government, but it still extends all the way to the backyard of the U.S. This thesis answers the reasons why Latin American countries have joined the AIIB.

Power transition theory, neoliberal institutionalism theory, and international public goods theory can provide reasonable tools for analyzing this research question. The ongoing power transition between the U.S. and China provides an important international context for Latin American countries to join the AIIB. In this context, the benefits provided by AIIB also attract Latin American countries. These include its significant institutional advantages, financing infrastructure and related projects, and complementing the existing multilateral development banking system. On this basis, this thesis provides feasible suggestions for the obstacles faced by the AIIB's further expansion in Latin America.

**Key Words:** Asian Infrastructure Investment Bank, Latin American Countries, Power Transition Theory, Neoliberal Institutionalism Theory, International Public Goods Theory

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# 1. Introduction

## 1.1 Study Background

In 2013, during a visit to Southeast Asia, Chinese President Xi Jinping proposed the establishment of the Asian Infrastructure Investment Bank (AIIB) in response to Asia's infrastructure needs. On December 25, 2015, the AIIB was officially established under the AIIB Agreement signed by the 57 founding countries. This is the first multilateral financial institution established at the initiative of China. Article 1(1) of the AIIB Agreement states that the purpose of the AIIB is to, on the one hand, promote the sustainable development of the Asian economy by investing in infrastructure and other productive sectors while creating wealth and improving infrastructure connectivity, and on the other hand, promote regional cooperation and partnerships to jointly address development challenges through close cooperation with other bilateral and multilateral development agencies.

As a multilateral development bank, the establishment of the AIIB has been influenced by several factors. Infrastructure development is seen as one of the key drivers of China's economic development, and the country's rapid economic growth allows it to provide valuable experience and take a lead role in promoting infrastructure development in neighboring countries (Lichtenstein, 2019). With the growing economic influence of developing countries, represented by China, they want to push for reform of the existing regional and international financial systems and gain a greater voice in them. In practice, however, it is difficult for existing institutions to reform and meet the development needs of these countries, including further access to investment (Ella, 2021). The AIIB was created to meet the growth and development aspirations of the countries and to complement the existing global financial system.

Membership in the AIIB is open to members of the International Bank for Reconstruction and Development (IBRD) and the Asian Development Bank (ADB) by the AIIB Agreement. According to the Members and Prospective Members of the Bank, as of April 2022, the AIIB has 105 members, including 46 regional members from Asia and Oceania, 43 non-regional members from other regions, and 16 prospective members. The non-regional members from Latin America include Argentina, Brazil, Chile, Ecuador, Peru, and Uruguay, while Bolivia and Venezuela are prospective members of the AIIB, making Latin American countries a very important part of the AIIB. Before introducing the membership of Latin American countries in the AIIB, it

is necessary to clarify the concept of Latin American countries used in this thesis. Latin America here refers to all of the American regions south of the U.S., which include 33 sovereign countries<sup>1</sup> and other dependent territories. In the United Nations Statistical Division's Geographic Regions List, Latin America and the Caribbean includes the Caribbean, Central America, and South America. Currently, there is no AIIB member in the Caribbean, so the countries in the American regions south of the U.S. are referred to as Latin American countries as a broader meaning.

According to the rules of the AIIB, countries need to sign the agreement, have it ratified by their respective legislatures, and subscribe the corresponding share capital before they can formally become its members. As the first Latin American country to formally join the AIIB, Ecuador became a full member of the AIIB on November 1, 2019, the first time it joined a financial institution from the Asian region. On April 28, 2020, Uruguay became a full member of the AIIB, making it the second Latin American partner of the AIIB. Brazil, the largest economy in Latin America and one of the founding members of the AIIB, officially joined on November 2, 2020, and Argentina joined the AIIB on March 30, 2021. Then Chile joined the AIIB on July 2 of the same year, and most recently, on January 14, 2022, Peru became a full member of it. Bolivia and Venezuela will become full members after they have gone through the legal process and deposited their first capital contributions.

## **1.2 Research Question**

The AIIB's global expansion has not been smooth. When the Chinese government proposed the creation of the AIIB, the U.S. government expressed serious concerns about the AIIB's ability to meet the governance standards of multilateral financial institutions, especially about anti-corruption and the environment. As the first Western country to seek membership in the AIIB, the UK's decision sparked strong resentment from the U.S. government. The U.S. government is also wary of the trend of continually accommodating China, arguing that this is not the best way to engage with emerging powers (Watt et al., 2015). While the U.S. government claims externally that it does not oppose the creation of the AIIB, its allies and partners suggest that actual U.S. diplomatic behavior does not match that statement and that the U.S. will lobby

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<sup>1</sup> These countries include Mexico, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Panama, Cuba, Haiti, Dominica, Jamaica, Trinidad and Tobago, Barbados, Grenada, Saint Lucia, Saint Vincent and the Grenadines, Bahamas, Guyana, Suriname, Venezuela, Colombia, Brazil, Ecuador, Peru, Saint Kitts and Nevis, Bolivia, Chile, Argentina, Paraguay, Uruguay, Belize, Antigua, and Barbuda.

vigorously against their memberships in the AIIB regardless of the assurances they give the U.S. (Wright, 2015). The U.S. wants to ensure that the AIIB's membership is limited to smaller countries, and of course, the result is disappointing (Méndez, 2018).

The expansion of the AIIB in the Latin American region has not been as expected by the U.S. government. Due to factors such as foreign aid, law enforcement cooperation, education, and cultural ties, Latin America has historically been the region with the highest support for the U.S. in the world and is considered as its "backyard". The government of the U.S. is reluctant to see an increase in China's influence in Latin America (Nugent and Campbell, 2021). In Matt Gaetz's speech to the U.S. House of Representatives in February 2022, this U.S. Republican Congressman even regarded Argentina's signing of the Belt and Road Initiative as a manifestation of China's incursions into the American Region (Gaetz, 2022, cited in Buenos Aires Times, 2022). Latin American countries' interest in this multilateral development bank shows that this Chinese initiative is being supported by more and more Latin American countries.

In addition to that, the nature of non-regional members brings some limitations to Latin American countries. On the one hand, the key areas of AIIB's loan support are infrastructure within the region, including key areas such as roads, bridges, ports, and airports (Zhou, 2016, cited in People.cn, 2016). That is to say, as an area outside the region, the infrastructure construction of Latin American countries is not a key area supported by the AIIB. On the other hand, in terms of shareholding arrangements, the AIIB stipulates that the investment ratios of regional members and non-regional members are 75% and 25% respectively, which also determines that in terms of voting rights, non-regional members are subject to a certain degree of restriction in exercising their power in AIIB matters (Guo, 2015). This means that, as non-regional members, it is difficult for Latin American countries to gain greater power in banking affairs than regional members.

Against the above background, although generally experiencing a longer approval time, many Latin American countries, represented by Brazil and Argentina, have officially joined the AIIB since the end of 2019, and constitute one of the most important non-regional members of the AIIB. The AIIB is being embraced by more and more Latin American countries. So *why is the AIIB able to extend all the way into the "backyard" of the U.S.? Why more and more Latin American countries choose to join the AIIB?* This thesis will analyze and answer this research question.

### 1.3 Objectives

By answering the reasons why more and more Latin American countries have joined the AIIB, this thesis attempts to understand the behavioral motives of important international actors, Latin American sovereign states, in the context of specific international relations.

AIIB is expected to play the role of a "propeller" for the development of international economic and financial cooperation (Jin, 2016). Chinese President Xi Jinping stated at the fifth annual meeting of the AIIB Board of Governors that the AIIB should become a new platform for promoting the common development of its members and contributing to the building of a human community with a shared future (Xi, 2020). However, the AIIB still faces many challenges on the way to playing its expected role. For example, the deterioration of the economic health of the relevant countries caused by the COVID-19 pandemic has slowed down the development of physical infrastructure and posed challenges to the AIIB's operations (Jin, 2020), while multiple concerns may also hinder the participation of Latin American countries in AIIB projects and activities.

The analysis of this research question will help to summarize the reasons and factors for the AIIB to attract members from Latin American countries, understand what kind of international financial institutions and international economic order these countries need, and provide feasible ideas and suggestions for how AIIB can further promote international cooperation in the future.

## **2. Methodology**

This section will explain the research design. The first part analyzes and selects the applicable theories based on the research questions that this thesis hopes to answer. On this basis, in order to make the data used in the analysis consistent with the theoretical requirements, the second part clarifies the data types and sources selected for the study. The third section will introduce the method of analysis used in this thesis.

### **2.1 Choice of Theory**

This thesis chooses power transition theory, neoliberal institutionalism theory, and international public goods theory from the two paradigms of realism and liberalism as theoretical tools to answer why Latin American countries have joined the AIIB.

First, realism focuses on power and structure in international relations. Among the many theories under this paradigm, the power transition theory is widely used to explain the relationship and interaction between major powers. The theory originated in the 1950s, and after more than half a century of development, it has gradually become an important theory in international politics. Due to the role of the law of unbalanced development of state power in world politics, the state's position in the international power structure is a process of power change in which the original dominant power status declines, and then the rising power status rises and gains the dominant power status (Organski, 1958). Under the power transition theory, the international system changes with the rise or fall of state power and growth rates. Unbalanced growth rates between dominant and rising powers cause power shifts to occur periodically. This theory is generally applied in the context of Sino-US relations research (e.g., Zhu and Huang, 2021). As an intergovernmental multilateral financing institution and the first international organization initiated by China, the establishment of the AIIB is a realistic response to the reform of the international system (Zhang, 2015). When studying the expansion of the AIIB, the power transition theory will be able to help analyze the international background of the AIIB and help to explore the reflection of the power balance between China and the U.S. in Latin America, providing reasons for Latin American countries to still join the AIIB under the pressure of the U.S.

Unlike the main theories of realism, liberalism is more concerned with international order and international institutions. Neoliberal institutionalism under this paradigm is one of the most influential schools of international relations theory since the 1980s



(Chen, 2012). Neoliberal institutionalism emphasizes common interests and believes that in an anarchic international system, cooperation among states can be achieved and regulated through international mechanisms, and international cooperation is possible and necessary (Stein, 2008). Latin American countries and China have common interests that cannot be ignored, and the AIIB, as a multilateral development bank, is an important part of the current international institutions and is expected to continue to promote the in-depth development of international cooperation. Today, with the deepening of globalization, the AIIB is a manifestation of the cooperation of international actors under one institution. Neoliberal institutionalism provides an excellent theoretical tool for answering questions related to the AIIB (Wang, 2016). Therefore, this thesis will also select neoliberal institutionalism to analyze the institutional advantages that the AIIB may rely on for its continuous expansion in Latin American countries.

International public goods theory is the product of the combination of public goods theory in economics and international relations research. According to Samuelson, a famous economist, a public good is a single consumption that does not affect or impair the consumption of this good by other actors (Paul, 1954). This concept of public goods was introduced into the field of international relations in the 1960s and gradually became a tool for analyzing international relations. Scholars such as Olson (1971), Sandler (1982), and Stiglitz (1995) have all discussed the concept of international public goods. Inge Kaul and several scholars proposed that global public goods refer to products whose benefits can be extended to all countries, all peoples, and all times (Kaul et al., 2003). The theory can be associated with both realism and liberalism. If it is emphasized that due to the inherent characteristics of public goods, other forces need to be used to meet the needs of internationalization, it leads to the theory of hegemonic stability under the paradigm of realism. Hegemonic powers achieve the stability of their international system by providing international public goods. However, considering the international public goods nature of the international institution itself, it leads to neoliberal institutionalism under the paradigm of liberalism. Therefore, this thesis considers international public goods theory as a theory closely related to both theoretical paradigms. The AIIB is regarded as an important attempt by China to proactively provide international public goods (Ling, 2016). The AIIB not only provides public goods for infrastructure construction for Latin American countries, but as an international public good, it also complements the existing international financial system. Therefore, this thesis will also use international public goods theory to analyze

the reasons why Latin American countries chose to join the AIIB.

## **2.2 Choice of Data**

The global expansion of the AIIB is multi-directional. Among the many countries participating in the AIIB, this thesis selects countries in the Latin American region as the research subject. The thesis examines the reasons for the increasing Latin American members in the AIIB and does not limit the research to a specific Latin American country. From a global perspective, in addition to the Asian region where the AIIB is located, Africa and Latin America are major regions where developing countries are located, and the development status of countries in each region is similar to some extent. Unlike countries in the African region, Latin American countries' relations with China, the initiators of the AIIB, started relatively late due to the deep influence of the U.S. However, since the end of the 20th century, the relations between Latin American countries and China have developed rapidly (Zhang, 2010). By the time of the establishment of the AIIB, Chinese and American scholars had formed different views on the state of relations between China and Latin American countries. American scholars believed that the relationship between China and Latin American countries was entering a difficult period (e.g., Marras, 2015), while Chinese scholars believed that due to frequent high-level visits, diversified economic and trade relations, and expansion of cooperation fields, China-Latin America relations had not entered a difficult period (e.g., Jiang, 2016). When exploring the reasons why many countries have actively joined the AIIB, Latin American scholars have paid attention to the long-term lack of infrastructure investment in the Latin American region, which is consistent with the main area of AIIB investment (Koop, 2021).

It can be seen that previous studies have focused on the integrity of Latin American countries. The analysis of the Latin American region will be more conducive to summarizing experiences with more general applicability and inspire promoting other countries in the region and even developing countries in other regions to participate in international cooperation through the AIIB. Of course, this thesis will also pay attention to the diversity among different countries in Latin America, select the specific data of Latin American countries participating in the AIIB (Argentina, Brazil, Chile, Ecuador, Peru, Uruguay, Bolivia, and Venezuela) as arguments for analysis, and pay attention to both general characteristics and particularities.

For the selection of data types, this thesis will select both quantitative data and

qualitative data. The previous section has selected power transition theory, neoliberal institutionalism theory, and international public goods theory as theoretical tools. Consistent with the theoretical choice, quantitative data will include data that can reflect the relative changes in power of China and the U.S, such as the population size and economic development, and then specifically in Latin America, data related to investment, trade, and aid during the epidemic that can reflect the power transition between the two sides, and the data showing the financing needs of public goods such as infrastructure in Latin America. Qualitative data will provide potential benefits for Latin American countries by studying the influence level of China and the U.S. in Latin America, as well as the characteristics of the AIIB mechanism and its impact on the international economic and financial system, and provide more abundant and comprehensive data, so as to better explain why Latin American countries choose to join the AIIB.

In terms of data sources, this thesis combines primary sources and secondary sources. The former includes official policies and specific data that can show the level of state power and the relationship among international actors, regulations and project progress released by the AIIB through channels such as the official website, and so on. Primary data will help ensure the credibility and dependability of the study. The latter includes academic literature by scholars from Latin American, China, and Western countries represented by the U.S., related expert comments, and authoritative news articles. Of course, the possible limitations of these data sources should also be noted. For example, among the eight Latin American countries that have joined the AIIB, all of them use Spanish as their official language, except for Brazil, which has Portuguese as its official language. Therefore, when analyzing data from Latin America, there may be obstacles caused by language. In general, these wide-ranging data will facilitate a comprehensive integration and analysis of the research findings and evaluations that already exist.

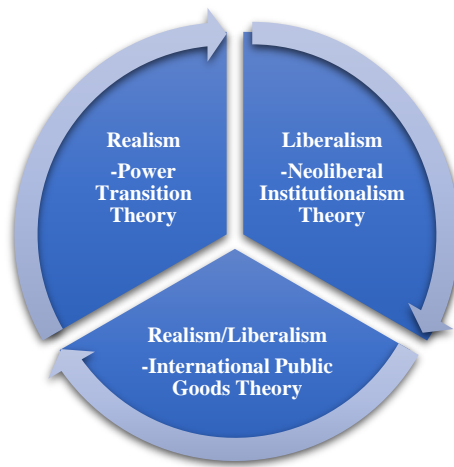
### **2.3 Method of Analysis**

Based on the selected data type, this thesis will comprehensively apply quantitative method and qualitative method for analysis. For example, by analyzing the changes and relationships of the selected quantitative data, the relative changes in state power can be clearly understood. Document studies aim at interpreting the factors that allow the AIIB to keep extending. Analyzing the specific data and the research results from scholars in different regions that can reflect the power transition between China and the

U.S. in Latin America will make the relationship between Latin American countries and AIIB host country clearer in the context of specific international relations, and provide a more objective understanding of Latin American countries' choice to join the AIIB. Analyzing the main areas of financing provided by the AIIB, the institutional design features of the AIIB, and its relationship with the existing international financial system, and comparing with the needs of Latin American countries, will help summarize the reasons and factors, and provide answers to the research question.

The specific analysis process will be carried out according to the selected theories, namely power transition theory, neoliberal institutionalism theory and international public goods theory, using selected data to demonstrate and ensure the logical relationship among each part. The first part will analyze the international relations background of the AIIB extending to Latin America. This part will discuss the power transition status of China and the U.S., especially in Latin America. On this basis, the second part will analyze the specific aspects from which the AIIB meets the needs of Latin American countries. On the one hand, from the perspective of institutional design, it will analyze the advantages of the AIIB for Latin American countries. On the other hand, this part will also focus on international public goods by analyzing the infrastructure financing opportunities provided by the AIIB and its complement to the international economic and financial system in which Latin American countries are located. The last part will summarize the factors that may hinder more Latin American countries from supporting the AIIB based on the previous analysis, and make corresponding suggestions for further strengthening international cooperation.

### 3. Theory



This chapter will provide a detailed analysis of the selected theory. As shown in the graph, they are power transition theory under the realist paradigm, neoliberal institutionalism theory under the liberal paradigm, and international public goods theory related to both realism and liberalism. Based on analyzing the theoretical content, this chapter will also try to interpret the research questions of the thesis.

#### 3.1 Power Transition Theory

##### 3.1.1 The Development of Power Transition Theory

Power transition theory was first proposed by American scholar Organski in his book "World Politics" in 1958. The proposal of this theory is deeply influenced by the realism theory, especially the realism theoretical system of Hans Morgenthau. Morgenthau, in his book "Politics Among Nations" (1948), regarded the sovereign state as the basic unit of theoretical study of international relations. He believes that national interests are determined by power. Power refers to the ability of states to control the thoughts and actions of other states. In order to continuously satisfy national interests, the state must constantly pursue power. It can be said that the use of power to measure and regulate national interests is the core of realism theory (Hoffmann, 1960). Morgenthau's view of power gave Organski a great inspiration. Both sides regard the sovereign state as the subject of study, and power is the main variable in international relations, but for the growth of power, Morgenthau believes that countries can form alliances to increase their own power or reduce each other's power, thus forming an international power structure based on the balance of power. Organski put forward a different view.

The proposition of power transition theory has its specific background. After World War II, the contest of international politics did not depend on the comparison of military power, and military alliances could not reasonably distribute world power. The fundamental reason for the inability to form a balance of power among major powers is that with the changes of the times, the population, political and economic structure of each country changes rapidly (Zhu, 1998). According to Organski (1958), the main source of power growth is the endogenous growth of power brought about by industrialization. The change of state power will bring about the dynamic evolution of the international system. The transfer of relative power between dominant and rising powers determines the changes in the international system.

In 1980, Organski developed the theory of power transition in “The War Ledger”, co-authored with Jacek Kugler. The book expounds on the relationship between power parity and the prospect of power transition wars from the perspective of mathematical statistics and points out that the difference in the growth rate of power between major powers is one of the factors for the outbreak of large-scale wars.

Since the 1990s, the power transition theory has continued to develop. In 1996, Kugler and Lemek co-published “Parity and War: Evaluation and Extensions of the War Ledger”, which systematically demonstrated the relationship between power transitions and the outbreak of war. Entering the 21st century, Tammen co-authored “Power Transitions: Strategies for the 21st Century” with scholars such as Kugler and Lemek. Building on the core theory of Organski, they applied power transitions to the regional level and make predictions for the 21st century.

### **3.1.2 Main Content of Power Transition Theory**

Before analyzing the international relations background of Latin American countries supporting the AIIB, it is necessary to systematically understand the main content of power transition theory. Therefore, this section will analyze the power transition theory from the aspects of the concept of power, the process, and result of power transition.

As the core of power transition theory, the concept of "power" is very important. According to Organski (1980), power refers to the number of people in the nation-state who can work and engage in warfare, the technology and productivity of the effective population, and the ability of the government system to mobilize human and material resources. That is to say, the three major factors that affect state power are population size, economic development, and political development. In "The War Ledger", GNP is

used as the main indicator to measure the economic development and political development of major powers. Entering the 21st century, some scholars believe that the degree of power transition between major powers should be accurately measured by geometric calculation methods (e.g., Kadera and Sorokin, 2004). However, this kind of measurement using hard power indicators such as military, economy, and population actually ignores important soft power indicators such as political capacity (You, 2018).

The endogenous growth of power is one of the manifestations of the significant difference between power transition theory and balance of power theory. The power transition theory holds that power comes from the economic growth brought about by the industrialization of the country. This economic growth is endogenous and closely related to population, politics, and technology. When a country has a huge population, a sufficiently large and rapidly growing economy, and a strong political capacity, its rising trend is difficult to be changed by external forces (Rasler and Thompson, 2001). In other words, the power transition will inevitably occur.

The power transition theory's view of the way the international system is organized differs from that of mainstream realism. The former does not agree that there is no supreme authority in the international system to regulate the behavior of international actors. According to Organski (1968), the international system has a hierarchy that exists in the form of a pyramid. In this pyramid-like hierarchy, power is distributed vertically from top to bottom, namely dominant state, great powers, middle powers, small powers, and colonies. The main subjects of the power transition theory are the dominant state and the challenging state in the great powers. The former has led the establishment of the international order and achieved peace through absolute superiority. If a country owns 80% or more of the former's power resources, it becomes a challenging state (Organski and Kugler, 1980). The competitive relationship between the two parties has an important impact on the stability of the international system.

In "World Politics", Organski divides the power transition into three stages, which are divided according to the industrialization stage of the rising powers. The first stage is the "period of potential power". The country is still in the early stage of industrialization, but there is great potential. The second stage is the "period of transitional growth in power". The country has entered a period of industrialization and has undergone urbanization. Its external influence has increased, and state power has been continuously enhanced. The third stage is the "period of power maturity". The country is fully industrialized, the political and economic system operates more effectively, and

the growth rate of power slows down. Organski believes that the speed at which a country acquires power depends on the process of industrialization. Different stages of industrialization and the speeds of acquiring power determine the distribution of power and finally form the transition of power.

There are two kinds of outcomes, a power transition ending in war or a peaceful transition. It depends on whether the power parity is achieved, and whether the challenging state is satisfied with the status quo, both of which will work together. On the one hand, when power has reached parity, the possibility of war is greatly enhanced. Power parity begins when the power of the potential challenging state reaches 80% of the dominant state and ends when it exceeds 20% of the dominant state (Tammen et al., 2000). On the other hand, if the challenging state replaces the existing international order with a competing one, the probability of war increases. But if it is satisfied with the status quo and is considered a friendly country, then conflict is less likely.

### **3.1.3 Power Transition between the U.S. and China**

Before the establishment of the AIIB, the power transition theory has been widely used in the study of Sino-US relations (e.g., Yu, 2018). Similarly, this theory can also provide a basis for AIIB related research. For Latin American countries, the AIIB is initiated by China, and the U.S. can be regarded as the country with the closest ties. Therefore, the power transition process between the U.S. and China provides an important international relations background for Latin American countries to choose whether to join the AIIB.

At present, the U.S. is still the dominant state in the international system of power transition theory, while China is one of the most important great powers and is regarded by the U.S. as a challenging state that needs to be focused on (e.g., Ratner, 2018). Power transition theory can help assess whether a power transition is taking place between the U.S. and China, and at what stage is it. According to the power transition theory, power comes from the economic growth brought about by the industrialization of the country. Due to the difference in the process of industrialization between them, the speed of gaining power is different. If China meets the conditions of a huge population, a large and rapidly growing economy, and a strong political capability, the power transition between the U.S. and China will surely occur. China's stage of industrialization can help explain the stage of power transition between them.

Although different scholars of the theory use different ways to measure the power of



the state, in general, the different development of the two sides in terms of population, economy, and politics can reflect their power in the international community. At the same time, the different states of economic, trade, and political influence between them in Latin American countries can show the transition of power between them from the perspective of Latin American countries.

In conclusion, we can provide a hypothesis for this research question in terms of power transition theory. A power transition is taking place between the U.S. and China. Specifically, in Latin America, China's influence in many aspects is increasing compared to the U.S. Therefore, the AIIB proposed by China can continue to expand in this international context, and more and more Latin American countries choose to support and join it.

## **3.2 Neoliberal Institutionalism Theory**

### **3.2.1 The Development of Neoliberal Institutionalism Theory**

After the end of World War II, international economic exchanges and cooperation developed rapidly. In the 1960s, the revival of liberalism brought about tremendous changes in economic and political thought around the world and laid the foundation for the establishment of neoliberal institutionalism. In the 1970s, the international environment was constantly changing, the U.S. hegemony was relatively weak, non-state actors developed rapidly, and the trend of globalization and integration became obvious (Ni, 2003). At this time, it was difficult for realism to provide a reasonable explanation for the problems of international relations, and neoliberal institutionalism gradually took shape. Since the 1980s, international cooperation has flourished, the role of the international institutions in international politics has become increasingly prominent, the interaction of international political and economic activities has been strengthened, and the interdependence has deepened. Neoliberal institutionalism continues to develop in the polemic with neorealism (Wu, 2005).

The political science professor of Princeton University, Robert Keohane, is a leading figure in neoliberal institutionalism. The books and papers he wrote had a profound impact on neoliberal institutionalism. "Power and Interdependence" published in 1977, as the theoretical cornerstone of the rise of neoliberal institutionalism, marked the beginning of the American liberal school to challenge the dominance of neorealism in international relations (Men, 2002). Robert O. Keohane and Joseph Nye (1977) drew

on rational choice theory and related theoretical frameworks of institutional economics, emphasized the importance of the international process, regarded international institutions as independent explanatory variables, and constructed a theoretical framework of neoliberal institutionalism. The publication of “After Hegemony: Cooperation and Discord in the World Political Economy” in 1984 marked the maturation of neoliberal institutionalism, which focused on international cooperation. In 1989, “International Institutions and State Power: Essays in International Relations Theory” was published. It includes ten papers that represent the development of international institutional thinking, deepening neoliberal institutionalism. Since the 1990s, neoliberal institutionalism has entered a new stage of diversified development.

While accepting several basic assumptions of neorealism, neoliberalism revises and supplements it. Neoliberal institutionalism recognizes that the international society is in a state of anarchy, regards the state as the main actor in international relations, and regards the national interest as the highest criterion of state behavior. But neoliberal institutionalists draw different conclusions from these propositions. For example, Keohane and Axelrod (1985) believed that although there is no common central government in world politics, this does not mean that world politics is lack cooperation, and the procedures and rules of problem-solving in the international community are not chaotic. International institutions are an effective means of solving the problem of anarchy. Neoliberal institutionalism sees the state as a rational "economic man" in international relations and sees the political process as transactional politics. It argues that neorealism overemphasizes the conflicting side of international politics and uses interdependence to illustrate power relations between states (Keohane and Nye, 1972). In fact, interdependence makes international cooperation possible, and the existence of international institutions prevents countries from pursuing their own interests without restrictions. The design and innovation of international institutions can effectively reduce the transaction costs of countries. Therefore, good international institutions can promote cooperation and peace (Keohane, 1984).

### **3.2.2 Main Content of Neoliberal Institutionalism Theory**

The main point of neoliberal institutionalism is that in an international environment of increased interdependence, different countries need to cooperate in order to achieve national interests. However, due to anarchy, cooperation is not easy. It is necessary to strengthen communication and coordination among countries by establishing

international institutions based on common interests. This section will analyze perspectives on international cooperation and international institutions.

International cooperation is a focus of neoliberal institutionalism. Keohane focused on this issue in his book "After Hegemony: Cooperation and Conflict in the World Political Economy". Neoliberal institutionalism emphasizes the importance of common interests. International cooperation will emerge in order to pursue common interests. Interdependence and common interests are necessary conditions for international cooperation. However, neoliberal institutionalism also recognizes that countries with common interests do not necessarily move toward cooperation, and cooperation is a policy behavior made by state actors out of the rational calculation of costs and benefits. Even in anarchy, state behavior in pursuit of self-interest can lead to cooperative situations (Keohane and Axelrod, 1985). International cooperation can be accompanied by conflict. It also shows that, for the sake of world peace and the development of the country itself, in world politics, countries should strive to take necessary measures to overcome potential or actual conflicts in order to achieve international cooperation.

The realization of international cooperation is inseparable from the guarantee of international institutions. The international institution is also one of the important achievements of neoliberal institutionalism. Keohane defined international institutions (regimes) as sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations. International regimes allow states to adjust their expectations and maintain channels of cooperation (Keohane, 1984). Keohane believes that the forms of international institutions include international organizations and non-governmental organizations with clear regulations, conventions, and rules negotiated between governments in a certain field, and international practices that are not expressly stipulated. However, Keohane also pointed out that the difference between them in practice is not as obvious as it is reflected in the description (Keohane, 1989). Neoliberal institutionalism provides two ways for the generation of international institutions. The first is the spontaneous generation through the process of "socialization" of states in international relations, and the second is compulsory regulations by hegemonic or dominant countries (Chen, 1999). The institutions that have been created have lasting functional value. On the one hand, it brings together the needs of all parties, provides sufficient information, and reduces the uncertainty of behavior and the cost of international interaction. On the other hand, the system restrains the behavior of the state by prohibiting certain actions and exerting a

supervisory function (ibid). That is to say, the existence of international mechanisms increases the cost of default, so complying with and maintaining international mechanisms has become a wise choice for states.

### **3.2.3 AIIB as an International Institution**

Neoliberal institutionalism provides theoretical support for the establishment of AIIB. According to neoliberal institutionalism, the interdependence between states is strengthened, and states cooperate internationally within the framework of international institutions. At present, the degree of interdependence of countries around the world is deepening. Developing countries represented by Asian countries have huge potential for economic growth. Enhanced infrastructure construction is a common need of these countries. However, infrastructure construction requires a lot of financial support and cannot rely solely on the strength of a single country. Therefore, the gap in infrastructure construction investment needs to be filled by international cooperation. The development of such international cooperation depends on international economic institutions with greater influence and executive power. The AIIB was established based on this demand. It is an intergovernmental international economic organization with clear regulations, and it conforms to the first method of generation of the international system described above, that is, it is spontaneously generated by states in international relations. This financial institution provides a platform for international economic cooperation and rules for the financing process by establishing an international mechanism recognized by member states.

Based on the above analysis, we can put forward hypotheses about the reasons why Latin American countries support the AIIB from the perspective of neoliberal institutionalism. Latin American countries have needs for national interests such as infrastructure construction. In order to obtain national interests, cooperation with other countries is required. The AIIB, established by China as an international institution, has a series of institutional advantages, which can meet the needs of the national interests of Latin American countries and help them continue to benefit from a relatively stable environment. Therefore, Latin American countries have increased their recognition of the AIIB and participated in international cooperation through the AIIB.

### **3.3 International Public Goods Theory**

#### **3.3.1 The Development of the International Public Goods Theory**

International public goods theory is mainly inspired by public goods in economics. In 1954, Paul Samuelson gave a clear definition of public goods in his article "The Pure Theory of Public Expenditure". He believes that a public good is a product whose consumption by anyone does not affect other people's equal consumption of the product. Public goods have two basic characteristics, namely non-excludability, and non-rivalry. The former means that it is impossible or difficult to exclude Free Rider from the scope of benefit. The latter means that the individual's consumption of the product does not prevent others from enjoying the product at the same time, nor does it reduce the consumption of others (Li. 2013).

Since the 1960s, the concept of public goods has gradually entered the field of international relations. For a country, in order to meet domestic public interests, it is necessary to provide domestic public goods. Similarly, at the international level, the existence of international public goods is also required to meet international public interests. The concept of "international public goods" was first proposed by Mancur Olson in 1971. In "Increasing the Incentives for International Cooperation", he analyzed the problem of improving the incentives for international cooperation from the perspective of international public goods. In 1986, American economist Kindleberger introduced international public goods into the discipline of international relations in "International Public Goods Without International Government" and explained international cooperation under anarchy.

Inge Kaul is the one who comprehensively and systematically researches and expounds the international public goods in the era of globalization. Her contributions to the theory are mainly reflected in "Global Public Goods: International Cooperation in the 21st Century" and "Providing Global Public Goods: Managing Globalization".

#### **3.3.2 The Main Contents of International Public Goods Theory**

During the development of the international public goods theory, many scholars have defined international public goods. This thesis will mainly select Inge Kaul's point of view for introduction and application. Inge Kaul defines the international public good as a product whose benefits extend to all countries, all peoples, and all times (Kaul,

2003). This definition includes the benefits space, object, and time of international public goods. That is to say, consumers of international public goods transcend the boundaries of countries and regions, and citizens of any country can benefit from them. It can not only benefit the present, but also the future generations.

According to different standards, international public goods can be divided into different categories. For example, according to the production stage, it is divided into final international public goods and intermediate international public goods. The former, such as safety, can benefit people. The latter, such as international institutions and international organizations, can provide final international public goods (Kaul, 2003). Mancur Olson divides international public goods into three categories. The first category is the stable international financial and monetary system, the international free trade system, and the coordination and standardization of international macroeconomic policies. The second category is the international security system and freedom of navigation on the high seas. The third category is the international economic aid system (Olson, 1971).

International public goods theory is closely related to both realism and liberalism. The basic characteristics of public goods make it difficult to achieve it completely through the spontaneous adjustment of the market. Similarly, in the international community, it is also necessary to resort to other means to realize the supply of international public goods. The theory of hegemonic stability under the realism paradigm believes that the hegemonic country provides public goods for the international community and realizes the stability of the international system dominated by it (e.g., Gilpin, 1987). However, neoliberal institutionalism under the liberalism paradigm believes that, in addition to the supply of hegemonic powers, international institutions can also be spontaneously generated by states in international relations (Chen, 1999). This kind of international institution that can promote international cooperation is itself an international public good.

### **3.3.3 International Public Goods and the AIIB**

First, the infrastructure construction projects financed by the AIIB are public goods. The interconnection of infrastructure can sometimes not only benefit a single country but also indirectly benefit citizens of other countries. At this time, the public goods provided by the AIIB have transnational externalities. Therefore, it can be said that the AIIB contributes to the supply of international public goods.

Second, the AIIB itself satisfies the definition of an international public good. Participants in the AIIB include not only countries in the region, but also countries outside the region. The beneficiaries of this financial institution transcend the boundaries of countries and regions and provide a sustainable multilateral cooperation platform for the international community. Therefore, the AIIB itself can be regarded as an international public good provided by China on its own initiative, and it belongs to the intermediate international public goods mentioned above.

Based on the above analysis, we can make hypotheses about the reasons why Latin American countries support the AIIB from the perspective of international public goods theory. For Latin American countries, on the one hand, the AIIB supports the construction of local infrastructure, which can benefit consumers from Latin American countries and outside the Latin American region. On the other hand, as an international public product, the AIIB complements existing financial institutions, improves the international financial system in which Latin American countries are located, promotes the improvement of the global financial governance structure, and plays a positive role in the stability of the international economic order, which enables Latin American countries to benefit from it.

## **4. Analysis**

### **4.1 The Power Transition Background between the U.S. and China**

China's rapid growth has sparked widespread debate in the U.S. Its foreign policy hawks believe that China is a rising power that, if unchecked, will soon challenge the hegemony that the U.S. has held since 1945 (Reich, 2015). This chapter applies the power transition theory to analyze the international background of Latin American countries joining the AIIB. First, this thesis analyzes the relative changes in power-related factors between China and the U.S. and understands the state of power transition between the U.S. and China and the relationship between the AIIB and the process. Then, this thesis analyzes the power transition performance of the U.S. and China in Latin America and the changes in their influence ability in this region, so as to explain the reasons why Latin American countries are still willing to join the AIIB established by China's initiative under the pressure of the U.S.

#### **4.1.1 Relative Changes in the Power-related Factors between the U.S. and China**

After the 2008 financial crisis, many Western scholars believe that the global dominance of the U.S. is being shaken, and a global power transition has begun (Brooks and Wohlforth, 2015). This section will analyze the state of power transition between China and the U.S. by comparing the power-related factors including population size, economic level, and political capacity. Then, on this basis, the relationship between the AIIB and the power transition will be answered.

##### **4.1.1.1 Population Size**

According to data released by the U.S. Census Bureau in 2021, as of April 1, 2020, the total population of the U.S. was 331,449,281, an increase of 7.4% compared to 2010. It was the second-lowest decade of population growth in U.S. history since statistics began in 1790, just slightly higher than 7.3% during the Great Depression of the 1930s. Over the past decade, population growth in the U.S. has slowed significantly. The Hill (2021) believes that the slowdown in the growth of the US population may have a serious impact in the next few decades (Hill, 2021, cited in Global Times). At the same time, the average American life expectancy has continued to decline over the past three



years, which is the longest drop in a century.

According to data released by the National Bureau of Statistics of China and the Office of the Leading Group for the Seventh National Census of the State Council in 2021, as of November 1, 2020, China's total population was 144,349,7378. Compared with the data of the Sixth Census in 2010, it increased by 5.38%, and the average annual growth rate was 0.53%. Compared with 0.57% from 2000 to 2010, it slightly decreased by 0.04%. Data show that China's population has maintained a low growth rate for 10 years. According to the 2019 National Statistical Yearbook and the National Health Commission, China's life expectancy has continued to increase in the 21st century, rising from 71.4 years in 2000 to 77.3 years in 2019.

In terms of population size, China's population base is much larger than that of the U.S. Although there is a trend of slowing population growth in both countries, by contrast, as a country with a large population, China's labor resources are more abundant and the quality has improved. China still has a demographic dividend that can continue to provide support for sustainable and healthy economic and social development (according to the National Bureau of Statistics of China).

#### **4.1.1.2 Economic Level**

Industrialization is the basic way to modern society (Ma, 2010), and China and the U.S. are in different stages of industrialization. Although the exact timing of the completion of U.S. industrialization varies depending on the indicator (like Simon S. Kuznets or Hollis B. Chenery's different indicators). But what is certain is that the U.S. has completed the process of industrialization in the traditional sense by the middle of the 20th century. That is, the rate of power growth has slowed. At the end of the 20th century, the deindustrialization phenomenon in the U.S. was obvious. The share of employment in the manufacturing sector continued to decline, while the share of the service sector rose. In the early 2000s, the introduction of policies such as “A Framework for Revitalizing American Manufacturing” reflected the desire to reindustrialize the U.S. For China, "Made in China 2025" pointed out that by 2020, China will achieve the goal of basically realizing industrialization. China is still in a stage of the rapid rise in power. After that, China will advance towards full industrialization, which will be fully realized around 2030. The 19th National Congress of the Communist Party of China pointed out that by 2035, China will basically achieve socialist modernization.

The U.S. and China are currently the world's largest and second-largest economies.

According to data released by the U.S. Bureau of Economic Analysis, its GDP is \$23 trillion in 2021, an increase of 5.7% from 2020. This growth rate is also the highest since the 21st century. Affected by Covid-19, GDP growth in the US in 2020 is -3.4%, and GNP growth is -1.8%. In other years, the US GDP fluctuated slightly within 3%. According to the National Bureau of Statistics of China, China's GNP in 2021 is 113.3518 trillion yuan, and its GDP is 4.367 billion yuan. This is the second year that China's GDP exceeds 100 trillion. Compared with 2020, GNP increases by 7.9%, and GDP increases by 8.1%. Converted at the annual average exchange rate, they are 17.6 trillion and 17.7 trillion US dollars respectively. Since the reform and opening up in 1978, China's GDP has grown at an average annual rate of about 9.5% in about 40 years. As the world's largest exporter and trader, China's GDP is expected to far surpass that of the U.S. by the middle of the 21st century (Wyne, 2019).

According to the above comparison, it can be seen that China is currently in a stage of industrialization with faster power growth than the U.S. Although not yet surpassing the U.S. in absolute size, China meets the conditions for the power transition with a large and rapidly growing economy.

#### **4.1.1.3 Political Capacity**

The comparison of the political capabilities of the U.S. and China can provide a more comprehensive understanding of the dynamics of power between China and the U.S.

As the most powerful country, the U.S. has been the main architect of the post-World War II international system. Through leading the construction of the United Nations, the International Monetary Fund, which aims to monitor global financial policies, and the World Bank, which mainly provides development assistance to developing countries, the U.S. has established hegemony on a global scale and has become the dominant state in the existing international power hierarchy. But especially since the beginning of the 21st century, the U.S. is facing a trend of power declining. The Iraq war launched by the U.S. in 2003, bypassing the United Nations, severely depleted its national resources, and to some extent made it lose the moral advantage brought by 911 (Lou, 2011). The U.S.'s performance in the financial crisis in 2008 also lost its credibility and influence. The relative decline of overall strength also reduces its ability to call on and integrate alliance forces, respond to hot issues, and control relations between major powers (Liu, 2016). After taking office, former President Trump adopted the strategy of getting rid of global responsibilities, realizing inward contraction, and frequently withdrawing from international organizations. While the strategy was

designed to make the U.S. great again, it also took a toll on its credibility in the international community.

In contrast, China has actively pursued a multi-faceted diplomatic strategy on the basis of its rapid economic growth and domestic political stability. While developing cooperative partnerships with major powers, China is striving to open up space for diplomatic activities in neighboring countries and developing countries. During the 2008 financial crisis, it actively helped countries such as European ones to tide over the difficulties together. At the same time, China has been providing aid and investment to economically struggling developing countries. In 2015, the "Belt and Road" initiative officially entered the construction stage, which aims to promote international cooperation and build a human community with a shared future. According to its official website, as of February 2022, China has signed cooperation documents with 148 countries and 32 international organizations to jointly build the "Belt and Road" Initiative.

Although according to the research of Chinese scholars such as Yan Xuetong (2008), if a comprehensive study is carried out on indicators such as national model attractiveness, cultural attractiveness, friendly relations, international rule-making power, and domestic social mobilization power, there is still a big gap in the soft power dimension between the U.S. and China. However, with the proposal and development of initiatives represented by the "Belt and Road" in recent years, the influence gap between them in international politics tends to narrow.

#### **4.1.1.4 The AIIB as a Manifestation of Power Transition**

After the above analysis, we can find that the dominant state U.S. and China, which is regarded as the challenging state, have different economic growth rates due to different industrialization processes. China has a significant advantage in the speed with which it gains power. It satisfies the conditions of having a huge population, a sufficiently large and rapidly growing economy, and a strong political capacity. According to the power transition theory, power transition between the U.S. and China will inevitably occur. As the first intergovernmental multilateral financing institution initiated by China, the establishment of AIIB not only reflects the power transition between the U.S. and China, but also further affects the process of the transition.

Understanding the relationship between the "Belt and Road" Initiative and the AIIB is a prerequisite for further analysis of the AIIB. Both of them were initiated by the

Chinese government, and AIIB President Jin Liqun(2019) likened them to two engines in one plane. The two are interrelated and independent of each other. They jointly promote the construction of interconnection infrastructure and promote regional cooperation. Many of the AIIB's infrastructure construction projects are proposed by the "Belt and Road" initiative, but the AIIB is an international multilateral institution and needs to operate and execute projects in accordance with regulations and standards. The "Belt and Road" Initiative is a platform for world cooperation, inviting all countries to participate in it. Jin Liqun said (2021) that the AIIB looks forward to working with the international community to increase support for connectivity projects in the "Belt and Road" Initiative, and to promote high-quality economic development with new infrastructure constructions.

In the eyes of many American scholars, the AIIB is China's challenge to the existing international economic order and a destructive factor to the system established by the dominant state U.S. after World War II. In early 2015, Larry Summers, a former US Treasury secretary, viewed the AIIB's support from many prospective founding members as a reflection of the U.S. losing its role as an underwriter of the global economic system. In her view, the failure of the U.S. to successfully prevent traditional allies led by the UK from joining the AIIB is the most serious thing since the establishment of the Bretton Woods system. This long-standing strategic failure requires the U.S. to take a comprehensive look at its approach to global economics. Simon Reich (2015), a professor at Rutgers University, also believes that the establishment of the AIIB provides an alternative to the World Bank and represents neglect of the existing international economic order. He sees the establishment of the AIIB and the potential marginalization of existing international economic organizations as an important turning point for the U.S. The AIIB has extended beyond the financial realm to the global political influence realm.

Regarding the suspicion that the AIIB is the Chinese government's replacement of the existing international order with a competitive one, Jin Liqun's response (2015) is that the AIIB is a useful supplement and advancement to the existing international order, rather than a replacement and subversion. In other words, the establishment of the AIIB is not to replace the existing international order with a competitive one. According to this argument, the establishment and operation of the AIIB will facilitate the peaceful power transition between the U.S. and China.

#### **4.1.2 The Power Transition between the U.S. and China in Latin America**

After the above analysis, we can know that power transition is indeed taking place between the U.S. and China, and the AIIB is the embodiment of the relative change in power between them, which may have an important impact on the process of power transition. This section will focus on Latin America and provide a basis for the continued extension of the AIIB in this region by analyzing and comparing the changing power of the U.S. and China in Latin America.

##### **4.1.2.1 The Decline of U.S. Power in Latin America**

As the country with the longest and deepest influence on Latin American countries, the U.S. is experiencing power changes in the region. This section will analyze the process of power change and the U.S. initiatives to compete with the “Belt and Road” Initiative, so as to lay a foundation for the comparison of power changes between the two countries in this region.

###### **(i) The Process of Power Change**

Since the introduction of the “Monroe Doctrine” in 1823, Latin America has been regarded by the U.S. as its “backyard”. The “Monroe Doctrine”, which aims to not allow other powers to encroach on Latin America, created an unequal relationship between the U.S. and Latin America. Due to the huge difference in strength between the two sides, the implementation of the “Monroe Doctrine” did not encounter strong and effective resistance. Prior to Trump's presidency, U.S. policy toward Latin America focused on free trade, democratic governance, and security construction (Li and Qiu, 2020). Latin American countries are considered to be of great strategic importance to the U.S., and the stability of the region and the factors positively related to it can enhance the U.S.'s great power capabilities and allow it to have the luxury of focusing on other regions (Hass, 2020).

The strong power of the U.S. in Latin America can be seen from the regional international organizations extensively participated by Latin American countries. One is the Washington-based Organization of American States, founded in 1948 by the U.S. At the beginning of its establishment, the main task was to promote the member states to oppose communism in the Western Hemisphere, and to be able to legally interfere in the internal affairs of the member states on this ground (Smith, 1996). After the end of the Cold War, the activities of the Organization of American States also fully reflected the interests and values of the U.S., but to a certain extent, they also adapted to the

development needs of Latin American countries. The other is the Inter-American Development Bank, which was established in 1959 and is also headquartered in Washington, and aims to provide financial and technical assistance to the economic and social development plans of American countries. The U.S. has achieved a high degree of hegemonic control in the Inter-American Development Bank (Pang & He, 2015). In the early days of its establishment, the paid-in equity capital in the U.S. once reached 92% of the original capital available to the bank. It was not until the 1970s that Latin American countries subscribed to a partial share (Krasner, 1981). Members have an inherent disadvantage in voting rights due to their over-reliance on the U.S. for funding. Its charter clearly stipulates that the voting power of the country with the highest shareholding, that is, the U.S., must be maintained at more than 30%. As a multilateral aid agency, the Inter-American Development Bank can draw more funds from other developed countries for assistance. Since the beginning of the 21st century, Latin American countries represented by Brazil and Argentina have been calling for the reform of it.

Although the U.S. has always had a strong influence in Latin America, this influence is actually changing. The importance of Latin America to the U.S. is highlighted in *U.S.-Latin America Relations: A New Direction For A New Reality*, written by an independent working group organized by Council on Foreign Relations in 2008. Latin America is considered its largest oil supply region, a strong partner in developing alternative fuels, its fastest-growing trading partner, and its largest source of immigrants. Despite the importance of Latin America to the U.S., the report makes it clear that the era of U.S. influence in Latin America is over. The growing power of Latin American countries, the close relationship between them and other countries, represented by China, and the shifting attention of the U.S. are all reasons for this result (Sweig et al., 2009).

During Trump's presidency, in order to curb the growing influence of China, Russia and other countries in Latin America, the US government began to attach great importance to its "backyard". However, the measures used by the Trump administration, such as reducing the trade deficit by changing free trade rules, using sanctions and other means to contain left-wing regimes, and strictly restricting immigration, have been widely questioned in Latin America. During his tenure, opinion polls in Latin America showed a marked increase in negative perceptions of U.S. leadership in the region and globally. Gedan from the Wilson Center argues that Trump sees Latin American countries only through the prism of competing with China. President of the Inter-American Dialogue,

Michael Shifter (2020) believes that the Trump administration's threats, sanctions, and intimidation against Latin America have severely damaged the relationship between the U.S. and Latin America, which has arrived at a low point. Durre's President Juan Orlando Hernández criticized the U.S. in 2018 for cutting aid to Central America over immigration policy, while saying he welcomed the "opportunity" offered by China. Biden has made some changes. The hemispheric expert Michael Camilleri, in the Inter-American Dialogue, called Biden the president who has known Latin America better than any American leader since the end of the Cold War. He has the advantage of being vice president for eight years and served as chief U.S. envoy to Latin America and the Caribbean. Michael Shifter also expressed limited expectations for U.S.-Latin America relations after Biden took office. While there will be important and positive changes, the Biden administration needs to focus more urgently on the national agenda given the public health, economic, and social crises facing the U.S.

## **(ii) Competitive Initiatives**

According to the official website of China's "Belt and Road" Initiative, as of the beginning of 2022, 21 Latin American countries have signed cooperation documents with China on the joint construction of the "Belt and Road" Initiative<sup>2</sup>.

In 2018, during the Trump presidency, the U.S. government proposed the América Crece initiative. The initiative is a direct competitor to the "Belt and Road" Initiative, which aims to maintain and expand U.S. investment in the Western Hemisphere. Through this initiative, the U.S. works closely with governments across Latin America and the Caribbean. Infrastructure development is also a focus of the initiative, including, but not limited to, telecommunications, energy, ports, roads, and airports. The initiative emphasizes the establishment of transparent rules that allow the U.S. government to use a variety of mechanisms to help Latin American countries attract private investment to drive sustainable economic growth. Under the initiative, the U.S. International Development Finance Corporation invested US\$1 billion in the Guatemalan private sector to facilitate an additional US\$4 billion in private investment.

Blue Dot Network is another infrastructure strategic initiative associated with Latin American countries. The initiative was launched in November 2019 by the US, Japan, and Australia and is supported by the Organization for Economic Co-operation and

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<sup>2</sup> They are Chile, Guyana, Bolivia, Uruguay, Venezuela, Suriname, Ecuador, Peru, Argentina, Costa Rica, Panama, El Salvador, Dominican Republic, Trinidad and Tobago, Antigua and Barbuda, Dominica, Grenada, Barbados, Cuba, Jamaica and Nicaragua.

Development (OECD). As an infrastructure investment plan with strong multilateralism, the Blue Dot Network regards the safety and sustainability of infrastructure projects as the core content of its assessment and promotes private investment through government assessment and certification. While accusing the BRI of non-transparent funding sources and making recipient countries easy to fall into debt traps, the U.S. hopes to disrupt the strategic layout of the BRI through the Blue Dot Network (Liu, 2021).

After Biden became the new president, he has shown great importance to infrastructure construction but has not continued to follow the América Crece initiative. “Build Back Better World” was launched at the G7 summit in the UK in June 2021. The initiative was viewed by the vice-president of the Council of Americas, Eric Farnsworth, as having strong similarities to the defunct América Crece initiative. Low- and middle-income countries around the world, including Latin American countries, will be covered. According to information on the White House website, B3W claims to be an affirmative initiative launched by US President Joe Biden and G7 partners to meet the huge infrastructure needs of low- and middle-income countries. B3W emphasizes developing infrastructure in a transparent, sustainable, and responsible manner based on the Blue Dot Network certification program. It emphasizes itself as a values-driven, high-standard, and transparent infrastructure partnership led by major democracies. Its focus areas are climate, health, and health security, digital technology, and gender equity and equality. B3W hopes to leverage funds from the U.S. International Development Finance Corporation, the U.S. National Development Agency, and the Export-Import Bank of the U.S., among others, to leverage broader private investment in G7 countries. In September 2021, a U.S. diplomatic delegation visited Colombia, Panama, and Ecuador as a part of the global listening tour to learn how B3W can better support local infrastructure needs.

Colombia Risk Analyst Katherin Galindo Ortiz believes that the plan is clearly aimed at responding to the Chinese influence brought by the “Belt and Road” Initiative. Matt Yuki (2022), an expert on Latin America, believes that B3W may have an encouraging effect on Latin America, which has been severely affected by the pandemic. But because its loan terms can be very strict, it is difficult to see how the initiative will achieve what it claims is a strategic competition with China. Concerns about the initiative also include Farnsworth's suggestion that private companies will not pay more than market prices for strategic assets, making it difficult for the private capital advocated by the initiative to compete on price with Chinese state-owned enterprises.



To sum up, while still having significant influence capabilities in Latin America, there has been a marked decline in U.S. power in Latin America in recent years. China's "Belt and Road" Initiative has gained considerable influence, and the implementation effect of B3W and other initiatives in Latin America remains to be studied. This initiative can be seen as an effort by the U.S., as a dominant state, to maintain its own power in the face of the rise of China, the challenging state.

#### **4.1.2.2 The Relative Rise of China's Power in Latin America**

Globally, the power transition is ongoing between the U.S. and China. Specifically, in Latin America, the influence of the U.S. has weakened. At the same time, China's ties with Latin America are getting closer. This section will analyze the relative rise of China's power in Latin America from the perspective of trade and investment relations between China and Latin America and relative changes in China's political influence in the context of the pandemic.

##### **(i) The Increasingly Close Trade Relationship between China and Latin America**

Faced with developing economic challenges, Latin American countries are increasingly turning their attention from the North to the East. Latin America and China are literally on opposite sides of the globe, and trade between them needs to span vast oceans. In the face of greater challenges than dealing with the U.S., China's total trade with Latin American countries has continued to grow strongly over the past two decades. China's ambassador to Brazil, Yang Wanming, said China has been Latin America's second-largest trading partner since 2015. At present, China is also the largest trading partner of Brazil, Chile, Peru, Uruguay, and other countries. Latin America has become China's largest source of overseas agricultural products.

In 2000, China's trade with Latin America was US\$1.257 billion, according to China's Ministry of Commerce. By 2015, when the AIIB was officially established, the figure had expanded to US\$23.65 billion. The pandemic has not had a significant negative impact on the stable development of trade relations between Latin American countries and China and even deepened their dependence on exports to China. In 2020, trade between Latin America and China rose to a new high as a share of the region's GDP. In stark contrast, in 2020, the trade volume between Latin America and the U.S. fell by 17% due to the impact of the pandemic. According to data released by the General Administration of Customs of China, the total value of imports and exports between

China and Latin America rose to US\$451.6 billion in 2021. In about 20 years, the trade volume between the two sides has increased by about 35 times.

China's demand for Latin American products has contributed to the growth in trade volumes. Among them, soybeans, crude oil, copper, and iron occupy a larger proportion (based on the data from 2015-2019 compiled in the 2021 CHINA-LATIN AMERICA ECONOMIC BULLETIN). Crude oil comes mainly from Brazil, Venezuela, and Colombia. China's economic growth has also boosted its demand for metals, especially iron, from Latin American countries (Bradsher and Keith, 2020). Iron comes mainly from Brazil. The copper mainly comes from Chile and Peru. Demand for food products represented by beef and soybeans is growing strongly. China is the largest importer of Argentine soybeans and beef. In addition, China is an important beef export destination for Brazil, Uruguay, and Bolivia. Soybeans are mainly sourced from Brazil and Argentina. Another example is the increasingly important shellfish represented by shrimp. In recent years, China's shrimp imports from Ecuador have grown rapidly. Shrimp is Ecuador's second-largest export commodity after oil, while China, as the most important buyer, accounts for about 65% of the international market (Zumba 2020). Brazilian Ambassador to China Paulo Estivallet (2021) said in an interview with Time that it is more profitable to sell products to China than to other places. As the largest economy in Latin America, Brazil's bilateral trade with China was about US\$2 billion in 2000, and 20 years later, that figure has grown to more than US\$100 billion. 30% of Brazil's exports go to China.

## **(ii) The Increasingly Important Chinese Investment in Latin America**

Latin America is the second-largest destination for Chinese outbound investment after Asia. According to the "2021 Report on Chinese Direct Investment in Latin America and the Caribbean" by Enrique Dussel Peters, professor at Universidad Nacional Autónoma de México and founder of the China-Latin America and Caribbean Academic Network (RED ALC-CHINA), the proportion of China's investment in the region to its foreign direct investment has increased significantly in different periods after 2000, reaching 9.77% in 2020, but there is still a big gap compared with the U.S. China's direct investment was US\$11,151 million in 2015, rising to US\$17,328 million in 2019. Although the figure for 2020 was reduced to US\$11,464 million due to the epidemic, it is worth noting that China's foreign direct investment has increasingly become an important source of new jobs in Latin America. The number of jobs created by a single investment transaction from China increased sharply, from 1,401 in 2019 to

11,544 in 2020. One of the main features of Chinese direct investment in Latin America is the presence of an investment in the state sector (Peters, 2015). Infrastructure investment projects are an important part of Chinese investment in Latin America.

In terms of countries receiving investment, Argentina and Brazil received 61.17% of China's direct investment in Latin America between 2010 and 2014. But since 2017, Chile, Mexico, and Peru have also become major recipients. The proportion of direct investment between different industrial sectors has also changed. At the beginning of the 21st century, the metals, ores, and mining industries, and transportation accounted for a large proportion of the investment, while between 2015 and 2020, due to the emergence of transportation methods represented by Didi Chuxing, the energy, and automotive industries also gained huge development vitality. In the context of the pandemic, Latin American countries represented by Ecuador have received a grace period for repayment (“Ecuador totaliza Alivio” 2020).

### **(iii) The Rising Political Influence of China in the Context of the Epidemic**

The Covid-19 outbreak has given new context to the US-China influence battle in Latin America. Latin America has one of the highest death rates and one of the most negatively impacted economies in the world. Affected by the pandemic, in 2020, the economy of Latin America contracted by more than 7% (Ray et al., 2021).

Although both China and the U.S. have provided substantial aid to Latin American countries, there are differences in the speed, amount, country distribution and content of aid. In addition to the aid of the Chinese government, the state-owned and private enterprises, Chambers of Commerce, and the Chinese diaspora community, represented by PetroChina and Huawei, have also made substantial donations in Latin America. Take Brazil and Argentina, which have been approved to join the AIIB after the outbreak of the pandemic, as examples. According to statistics from the Wilson Center, an important nonpartisan think tank in the U.S., in Brazil, China's total aid to Covid-19 is US\$60 million, far exceeding the US\$16.9 million from the U.S. In terms of the supply of testing kits, protective equipment such as masks, hospital equipment such as hospital beds, and food packages, they all far exceed the aid from the U.S. In Argentina, for example, although the U.S. aided the construction of three field hospitals, which exceeded the number aided by China, China supplied 1,500 tons of urgently needed medical supplies, including masks, testing kits, protective clothing, and ventilators. Huawei donated thermal imaging technology to Ezeiza International Airport to help detect high-temperature passengers (Huawei, 2020). Argentine President Alberto

Fernández had previously been skeptical of China. In early 2021, he expressed his gratitude for China's help to Argentina during the Covid-19 and was willing to jointly build a community with a shared future for mankind. Another important example is Venezuela, where China's total aid has exceeded US\$100 million, far exceeding the amount of aid to other Latin American countries. Regarding the loss of the opportunity for the U.S. to increase its influence in Latin America during the epidemic, Boston University economist Rebecca Ray (2021) believes that due to the transfer of production lines abroad at the end of the last century, the U.S. is indeed powerless to compete.

The importance of the vaccine has made it a focus for the U.S. on China's influence in Latin American countries. Admiral Craig S. Faller, who leads the U.S. military's Southern Command, said in December 2020 that China is aggressively making deals to deploy the vaccine globally, while the U.S. is taking care of itself first. In Argentina, Brazil, Chile, Mexico, and Peru, China has conducted vaccine testing and planned to manufacture the vaccine locally. Following this, the U.S. has donated vaccines extensively to Latin American countries. For example, in Colombia and Paraguay, where China has not provided vaccine assistance, the U.S. has provided 6 million and 2 million vaccines respectively.

The political debate in Paraguay is a reflection of China's growing political influence in Latin America. Paraguay has not established diplomatic relations with China. In April 2020, Paraguay's Senate's left-wing group proposed a bill to establish diplomatic relations with China. Senators believed that the pandemic made China's support more important in the future, such as medical supplies, investment, and trade. While the bill was rejected by the right-wing party-controlled Senate, it is still seen as an important development in relations with China. In June 2020, Paraguay received humanitarian aid from China for the first time through unofficial means. It is expected to recognize the One-China after Congress's change in the balance of power. In January 2021, Paraguayan Senator Sixto Pereira told local media that the government bowed to U.S. pressure and rejected China's vaccine support. He pointed out that in a globalized world, Paraguay did not want to be the backyard of any country (Nugent and Campbell, 2021).

After the analysis in this chapter, we can conclude that China is now gaining power faster than the U.S., and is in line with the conditions of a large population, a huge and rapidly growing economy, and a strong political capacity. The power transition between

the US and China is taking place. It is against this international context that the AIIB was born and has continued to develop. If the embodiment of this power transition is specific to Latin America, the influence ability of the U.S. has declined significantly in recent years, while China has become more and more closely related to Latin American countries in terms of trade, investment, and political influence. This provides a reasonable international background for the continuous extension of the AIIB in Latin America, making more and more Latin American countries willing to choose to join the AIIB under the pressure of the U.S.

## **4.2 Benefits Provided by AIIB to Latin American Countries**

In the context of the power transition between the U.S. and China and the closer ties between China and Latin American countries, the AIIB established by China has become increasingly attractive to Latin American countries. After the establishment of AIIB, it clearly expressed its willingness to accept Latin American countries as members. For Latin American countries, AIIB has formed an important attraction for the benefits it provides. This chapter will analyze how AIIB attracts Latin American countries to participate from the perspective of the specific institutional advantages provided by AIIB, its meeting of Latin American countries' infrastructure construction funding needs, and AIIB itself as an international public good to complement the existing multilateral development banking system.

### **4.2.1 AIIB Institutional Advantages for Latin America**

In the process of financing, the behavior of countries needs to be promoted and restrained by relevant rules. The existence of the AIIB reduces the incompleteness of information in the process of obtaining financing for projects represented by infrastructure construction in Latin American countries and helps solve problems such as transaction costs and high uncertainty of state behavior. By putting each other's behavior on a predictable trajectory, the AIIB can help Latin American members continue to benefit from a relatively stable environment. As stated by AIIB's Head of Funding Martine Mills Hagen, the AIIB aims to be seen by investors as a predictable borrower (Wilson, 2020). Thanks to the lessons learned from other multilateral development bank-related mechanisms and the continuous improvement of the policy framework since its inception, the AIIB has been able to quickly get started in meeting infrastructure needs (Lichtenstein, 2019). AIIB President Jin Liqun (2020) once said

that as a newly established multilateral development bank, the biggest feature of AIIB is that it has absorbed the best practices and lessons learned from existing major multilateral development banks, rather than copying the practices of existing institutions. This part will analyze the possible institutional advantages of the AIIB for Latin American countries, so as to help answer the reasons why Latin American countries joined the AIIB.

#### **4.2.1.1 Avoid Interference in the Internal Affairs of Latin American Countries**

As the founding country of the AIIB, China's constitution contains the Five Principles of Peaceful Coexistence, which are the cornerstone of China's foreign policy. The Chinese government has always expressed its willingness to establish and develop friendly and cooperative relations with all countries on the basis of the Five Principles of Peaceful Coexistence (Xi, 2014). Among the five principles of peaceful coexistence, non-interference in each other's internal affairs is an important one. The loan conditions policy of the AIIB proposed by China also excludes strict and good governance requirements for borrowers. It does not attach conditions related to the democratization process or market-oriented reforms and does not interfere with how other sovereign countries manage their own political and economic affairs (Liao, 2016). Article 31 of the "AIIB Agreement" clearly states that the bank's decision-making only considers economic factors and the AIIB's policy on financing business also affirms the principle that the AIIB's business does not interfere with politics.

In the behavior of development aid, when Western countries provide aid to developing countries, they often attach political conditions to change or restrict certain political behaviors and policies of the recipient countries. China adheres to the principle of not attaching political conditions to foreign aid. Although this approach has been challenged and criticized by Western countries and many international organizations, this kind of aid that is different from the West and does not interfere in internal affairs is actually very attractive for recipient countries (e.g., Kurus, 2020; Jiang and Wang, 2010). As an international financial institution founded by China, the international cooperation advocated by the AIIB is believed by African scholars such as Nasser Bouchiba to inherit China's past cooperation principles of non-interference in internal affairs and mutual respect, with the fundamental purpose of achieving common development. For example, when approving projects, the AIIB only considers local conditions and economic factors without introducing political conditions and preferences (Daily Sun, 2018).

Lending to Latin American countries by international financial institutions and traditional creditor countries often has political strings attached. These additional conditions usually link aid to the recipient country's democracy, rule of law, and human rights conditions, or directly interfere in the country's internal affairs. Traditional donors approve the logic of comprehensive poverty reduction through structural adjustment, rather than relying on infrastructure development to promote economic growth (Du, 2021). For example, countries such as Argentina and Venezuela, which have a bad record of defaulting on their debts, are usually required to attach strict political conditions when applying for loans from international institutions, including the World Bank (Wang, 2015). The conditions attached to IMF aid, such as fiscal austerity, market opening, and bankruptcy liquidation, have even exacerbated the problems of recipient countries to a certain extent. Former Venezuelan President Chavez has repeatedly called the International Monetary Fund the spokesperson for the interests of the U.S. It imposes additional conditions on countries wishing to obtain loans to interfere in political and economic development, resulting in a fragile financial system for major Latin American economies. In early 2021, the U.S. Funding Committee for International Development signed a US\$2.8 billion infrastructure agreement with Ecuador. The loan was conditional on requiring the Ecuadorian government to privatize the oil industry and infrastructure, as well as requiring Ecuador to ban Chinese technology (Deutsche Welle, 2021). Another example is the B3W initiative mentioned above, according to Latin American expert Matt Yuki (2022), B3W has not yet come up with a solution to the long-standing problem that some Latin American governments are reluctant to accept conditional loans and investments. Although these additional political conditions include the purpose of guiding recipient countries to achieve aid goals in a way that traditionally developed countries deem reasonable, it cannot be denied that additional political conditions often stem from the consideration of meeting the private interests of developed countries.

Access to financing through the AIIB can help Latin American countries reduce their dependence on traditional creditor countries and financial institutions. This has helped to shake the traditional position of Western countries and institutions such as the World Bank and the International Monetary Fund in development aid. According to Larry Summers (2015), U.S.-backed policies prevent other countries from providing or obtaining financing through existing institutions. For developing countries, infrastructure construction financing is the main external capital demand of many countries, and the existing infrastructure projects financed by development banks are

affected by the pressure from the left and are generally subject to various restrictions. Consequently, the status of these development banks as funders has declined. Therefore, for Latin American countries, by joining the AIIB, they can obtain the required funds for infrastructure construction projects without interference in their internal affairs, which is a significant attraction.

#### **4.2.1.2 Pay Attention to the Voice of Developing Countries**

In terms of member equity, AIIB refers to the equity allocation design of traditional development banks, but at the same time pays special attention to the interests of Asian developing countries. Under this design, at the beginning of the establishment of the AIIB, the shares of developing countries exceeded 75%. It can be said that the AIIB is a bank established with developing countries as its major shareholders (Jin, 2019). Latin American countries, which are also developing countries and whose development needs are similar to those of Asian developing countries, can also benefit from this design.

According to the "AIIB Agreement", in terms of equity rules, the AIIB's authorized share capital is US\$100 billion, and there are provisions for the shares occupied by regional members and non-regional members, and the ratio of capital contribution of the two is 75:25. For regional members, the shares subscribed by them are allocated according to the proportion of GDP. For non-regional members, the AIIB refers to its GDP ratio and respects the actual wishes of members. The institutional design is flexible. Take Brazil as an example. Although it originally planned to subscribe for a share capital of US\$3.18 billion, due to financial constraints, the actual subscribed share capital was US\$5 million, but it successfully joined the AIIB. In the end, the top five shareholders of AIIB are China, India, Russia, Germany, and South Korea. This kind of shareholder ranking is the first time in an international multilateral development bank that the advantages of emerging economies are reflected (Shen and Zhang, 2016).

Compared with the AIIB, traditional multilateral development institutions more reflect the strength and voice of traditional developed countries, and the control of developed countries also makes the participation of developing countries insufficient. In the existing International Monetary Fund and the World Bank, although the voting rights of member countries are proportional to the amount of their funding, the U.S. still has the controlling voting rights, which also makes these international economic organizations criticized (Wade, 2001). Taking the World Bank as an example, its top three shareholders are the U.S., Japan, and China. Developing countries have a limited discourse power in it. This kind of equity distribution also makes it impossible for the



World Bank to accurately grasp the specific national conditions of each member country, and causes dissatisfaction among developing countries because the policy recommendations are measured by the same standard. Such policy recommendations are difficult to produce the desired effect (Zhou, 2015).

One of the highlights of AIIB's innovation is that developing countries account for the majority and have a greater right to speak. This conforms to the development and changes of the international economy, and also reflects the confidence and determination of developing countries to jointly promote development (Wang, 2016). The advantages of taking developing countries as the main body and including a large number of developed member countries enable it to become a bridge to promote South-South and North-South cooperation (ibid). For Latin American countries, a multilateral development bank that pays more attention to and respects the voice of developing countries can better meet their current and future economic development needs. Therefore, this is also one of the important reasons to attract Latin American countries to join the bank.

#### **4.2.1.3 Response Mechanism of AIIB in the Context of Pandemic**

In the context of Covid-19, Latin American countries face urgent economic, financial, and public health needs. In the process of fighting against the pandemic, Latin American countries need to do their utmost to maintain the stability of people's lives and social security and strive to promote economic recovery. These all require Latin American governments to have sufficient funds. Faced with a severe economic downturn, these countries need more help from multilateral development banks. From the significant negative impact of the pandemic on a global scale to the post-pandemic economic recovery, the response mechanism provided by the AIIB may be attractive to Latin American countries.

In the face of the impact of the pandemic, the AIIB established the COVID-19 Crisis Recovery Facility (CRF) to provide financial support to member countries' urgent public health needs and to finance infrastructure projects and other productive sectors severely affected by the epidemic. Brazilian economist Ronnie Lins applauds AIIB for offering members new financing options. He believes that the establishment of the CRF shows that the AIIB has established a mechanism to quickly recover from the crisis, and can provide financial support to countries in need when dealing with crises such as COVID-19 (GMW, 2020). As of March 7, 2022, the total size of the CRF has been expanded to US\$20 billion, and the financing application deadline has been extended

to the end of 2023. These funds will help countries, including Latin American member states, to control the epidemic and mitigate its adverse impact of it on the macroeconomy, businesses, and financial systems.

The outbreak has given the AIIB an opportunity to demonstrate its responsiveness and adaptability, and demonstrate its place in the world (Wilson, 2020). Although the AIIB aims to provide funding for infrastructure and other productive sectors, with the pandemic severely disrupting the global economy and posing a major threat to people's lives, it quickly chose to go beyond the boundaries of routine business to provide funding to member governments to meet the needs of sectors such as healthcare at the beginning of the epidemic outbreak in February. In addition to setting up the CRF, the AIIB has also actively innovated the practice of obtaining emergency financing for the epidemic through pandemic bonds. The AIIB issued its first panda bond in China in June 2020 and attracted international investors to the Chinese bond market. Soon, the practice caused a worldwide follow-up. Next, the AIIB completed the issuance of bonds in various other currencies such as the US dollar. The AIIB's response in the context of the epidemic is a stark manifestation of its use of financial innovation to solve social problems (Jin, 2020).

The existing case of Latin American countries obtaining financing through AIIB's CRF may also have more practical appeal to more Latin American countries. In November 2020, under the CRF, the AIIB approved the first project in a Latin American country, providing US\$50 million in sovereign guaranteed financing to Corporación Financiera Nacional BP, Ecuador's largest public bank. Corporación Financiera Nacional is a development bank that provides investment and working capital to businesses as a public policy tool (Patiño, 2021). The project, co-financed by the AIIB and the World Bank, aims to help Ecuador respond to COVID-19, obtain financing and address liquidity constraints faced by private micro, small- and medium-sized enterprises.

#### **4.2.2 Meet the Needs of Latin American Countries for Infrastructure Construction Funds**

Infrastructure construction is closely related to the economic and social development of Latin American countries, and Latin America has a very large demand for infrastructure construction. Capital-intensive infrastructure construction relies on financing to provide adequate funding. There is a contradiction between the growing demand for public goods and the backward supply capacity in Latin American countries.

At the same time, some important infrastructure constructions can benefit a wider range of countries and people, so they have transnational externalities. The AIIB can provide abundant funds for these infrastructure constructions. Therefore, by joining the AIIB, Latin America can obtain the funds needed to provide public goods and even international public goods from mutually beneficial economic relations. This section will analyze the needs of Latin American countries for infrastructure construction, the lack of infrastructure investment in the region, and the financing provided by AIIB for Latin American countries' infrastructure construction.

#### **4.2.2.1 The Importance of Infrastructure**

Infrastructure construction is of great significance to Latin American countries. According to a study by the United Nations Economic Commission for Latin America and the Caribbean (2011), infrastructure construction is an important tool for reducing poverty and achieving sustainable economic development. Investment in infrastructure is a key factor in the region's integration into the world economy in the 21st century and improving the quality of life of its residents. Taking foreign trade, which is closely related to the development level of Latin America, as an example, more complete infrastructure construction will effectively improve the trade environment in Latin America.

According to ASIAN INFRASTRUCTURE FINANCE 2019, there is a significant imbalance in international trade in Latin America. Improving trade balance will help improve the sustainability of economic relations. The first is the issue of trade deficit. Taking the Asian region where China is located as an example, the trade deficit between Latin America and Asia has grown rapidly since entering the 21st century, reaching US\$95 billion in 2016. At the same time, there are also significant differences in product types. With China's development, Latin America's imports from Asia are dominated by manufactured goods, while exports are still dominated by natural resources. In contrast, Latin America's trade with the U.S. is more balanced. Manufactured goods such as electronics and machinery account for more than half of Latin American exports to the U.S.

According to statistics from The Economist, more than 60% of roads in Latin America remain to be paved, which is higher than the 46% of emerging economies in Asia. In Europe, the ratio is 17%. The AIIB report believes that relevant data can show that the structural trade deficit between Latin America and Asia is related to the quality of its infrastructure to a certain extent. That is to say, the backwardness of infrastructure

affects the level of trade facilitation of Latin American countries, and the improvement of the level of infrastructure construction in Latin America may help it reduce the existing trade deficit. To address fluctuations in shipping costs between the Americas and Asia, a more balanced trade model is needed to reduce and stabilize shipping costs. While increasing investment in the manufacturing sector, Latin America must also improve its connectivity infrastructure. As China develops, its role as a demander of Latin American goods and services may become more prominent in the future. As a result, improvements in Latin America's infrastructure can accommodate and drive the expansion of its economic relationship with China, allowing it to benefit from the process.

#### **4.2.2.2 Inadequate Investment in Infrastructure**

At present, there is a big gap in investment in infrastructure construction in Latin American countries. A study calculates that by 2030, Latin America will need to invest US\$2,220.736 billion in water and sanitation, energy, transportation, and telecommunications to expand and maintain the infrastructure needed to achieve the sustainable development goals. Fifty-nine percent of this needs to be allocated to new infrastructure investments, with the remainder for maintenance and replacement of facilities reaching the end of life (Brichetti et al., 2021). RALATAM database is the product of the cooperation among the UN Economic Commission for Latin America and the Caribbean (ECLAC), the Inter-American Development Bank, and the Development Bank of Latin America, and its purpose is to count and analyze the infrastructure investment in Latin American countries. The top two areas of infrastructure investment in Latin American countries are transportation and energy. According to conservative estimates from the INFRALATAM database, Latin America should spend at least 6.2% of its GDP on infrastructure each year to close the gap between it and its own economic potential. But in fact, in 2015, when the AIIB was officially established, Latin America only spent 2.3% of its GDP on infrastructure investment. Of these, 1.5% came from the public sector and 0.8% from the private sector. Between 2008 and 2015, the ratio of investment in infrastructure construction to GDP in Latin American countries did not increase, which would have a negative impact on Latin American development (Méndez, 2018).

Although financial institutions represented by the World Bank, the Inter-American Development Bank and the Latin American Development Bank have made important contributions to the investment in the region, the existing infrastructure construction

investment gap still requires a wider source of funds. In 2015, for example, World Bank lending to Latin American countries shrank by 8% to US\$8 billion. Inter-American Development Bank lending to Latin America fell by 14% to \$11.5 billion (Gallagher, 2016, cited in Huanqiu, 2016). OVERVIEW OF INFRASTRUCTURE INVESTMENT IN LATIN AMERICA (2018), co-organized by the Inter-American Development Bank, believes that special attention should be paid to increasing investment in major countries that account for a high proportion of infrastructure investment. These mainly include Brazil, Argentina, Peru, and Chile. The report also expressed expectations for the next AIIB's investment in Latin America. During a visit to China in 2015, Enrique Garcia, chairman of the Latin American Development Bank, also emphasized the lack of infrastructure investment in Latin America. He believed that the foreign investment and innovation factors brought by China could help Latin America to get out of the traditional growth model, and welcomed the AIIB's investment in Latin America's infrastructure (CNR, 2015).

#### **4.2.2.3 What AIIB can bring to Latin American countries**

Different from financial institutions such as the World Bank, the Inter-American Development Bank, and the Latin American Development Bank, the AIIB has a clear strategic focus area at the beginning of its establishment, with the goal and main task of providing financing for the infrastructure and infrastructure-related projects of member countries. The AIIB can learn from China's experience of large-scale investment in infrastructure construction in recent decades (Jin, 2017). The Article 1 of "AIIB Agreement" states that AIIB's mission is to promote sustainable economic development in Asia, create wealth and improve infrastructure connectivity through investment in infrastructure and other productive sectors. The AIIB has established three priorities based on the success of other multilateral development banks and new requirements for global infrastructure financing. They are the areas of sustainable development, cross-border connectivity facilities, and projects that can mobilize and activate private capital participation. The AIIB's business is divided into three main categories: loans, equity investments, and provision of guarantees. The AIIB's focus areas were largely reflected in its financing activities during the first five years. Among them, energy, transportation, and water conservancy account for a large proportion (Ou, 2021).

Latin American governments hope to join the AIIB to obtain funds to alleviate the current problem of insufficient investment in infrastructure (Koop, 2021). As a new

source of development finance, the AIIB could compete with incumbents such as the Inter-American Development Bank and even the International Monetary Fund, which has raised high expectations in Latin America. As stated by the Ecuadorian Ministry of Finance, funding from the AIIB is essential to advance infrastructure projects that can benefit thousands of citizens (Lozano, 2019). Another example is the opinion of Brazilian economist Ronnie Lins that the infrastructure construction invested by the AIIB is mainly concentrated in the fields of health, transportation, energy, and communication. These projects generate income for the local people while creating employment opportunities (GMW, 2020).

Take Argentina, another AIIB member, as an example. As a country plagued by the debt crisis, Argentina applied to join the AIIB as early as 2017. Argentine Asian expert Nadia Radulovic believes that, as an emerging economy that needs a lot of capital to develop, Argentina can use the AIIB platform to achieve sustainable economic growth goals. In 2019, the plan to join the AIIB continued to advance. In October 2020, the Argentine House of Representatives overwhelmingly approved the decision to join the AIIB. Under the shadow of the debt crisis, the Argentine government needs to seek various ways to solve the financing problem. The AIIB is able to provide funds and mainly focus on infrastructure construction, which is what Argentina and many Latin American countries desperately need. Therefore, joining the AIIB has very important practical significance for Argentina.

AIIB President Jin Lique believes that infrastructure development can shorten the distance between Asia and Latin America. This is also a manifestation of the AIIB's ability to increase the supply of international public goods through financial integration and cross-border coordination. The AIIB can help shorten cross-border distances by providing project financings such as railways, airports, and information technology, and can promote interaction between Latin America and the rest of the world represented by Asia, so as to achieve a win-win situation. Taking air transportation as an example, the construction of infrastructure and the improvement of related technologies can better connect Latin American countries and regions represented by Asia, and greatly promote economic and trade development. The development of technologies represented by fuel efficiency has made it feasible to establish a more direct link between Latin America and Asia. The improvement of the infrastructure makes this improvement a reality. Although the tourism industry has been severely impacted by the pandemic in recent years, it is still a field with strong growth potential in the long run. Increased air connectivity will set the stage for a post-pandemic resumption of

international travel. Investments in international public goods will benefit the wider region and people, including Latin American and Asian countries.

Many developing countries represented by Latin American countries have long-standing debt problems, so the debt sustainability of AIIB infrastructure financing has also attracted much attention. AIIB President Jin Liqun (2019) believes that a better solution is to mobilize private capital and private sector capital, so as not to increase the country's public debt while continuing to promote infrastructure and economic development so that the country has more sufficient financial resources to repay the debt. At present, the proportion of private investment in Latin America is higher than that in other developing regions such as Asia, and the governments of Latin American countries have also clearly expressed their desire to further increase the level of private investment (according to 2018 OVERVIEW OF INFRASTRUCTURE INVESTMENT IN LATIN AMERICA). Therefore, the AIIB will mobilize various resources, especially private sector funds, to invest in infrastructure construction through multiple channels, and promote the process of regional connectivity and economic integration, thereby improving the investment environment of developing member states, creating job opportunities, enhancing medium- and long-term development potential, and actively promoting economic growth (Xi, 2016). In terms of specific practices, the AIIB has provided loans denominated in member countries' local currencies since 2019, fully mobilizing local savings. In countries where it is difficult to find partners with sufficient capacity to build large-scale infrastructure projects, the AIIB tries to develop the right resources. For the risks that the private sector may encounter, the AIIB plans to cultivate the market and conduct research with local project authorities to prevent problems such as inflation and provide appropriate solutions to ensure the success of the project.

#### **4.2.3 AIIB Complements the Existing Multilateral Development Banking System**

As the first multilateral development bank initiated by China, the AIIB not only promotes the supply of international public goods represented by infrastructure but is actually a new type of international public goods itself. For Latin American countries, this kind of international public goods can help build an international economic and financial system that better reflects their needs, and can benefit Latin American countries through cooperation with existing multilateral development banks. This section will answer the reasons why more and more Latin American countries choose

to join the AIIB from the perspective of how AIIB complements the existing multilateral development banking system.

#### **4.2.3.1 An International Economic and Financial System that Better Reflects the Needs of Latin American Countries**

To analyze how AIIB affects the international economic system, we first need to understand the attitude of its founding country, China, to the current international economic and political system. In an interview with *The Paper*, AIIB President Jin Liqun (2019) said that the Chinese government has never advocated overthrowing the existing international economic and political system, but believes that it needs to be reformed and needs to reflect the will and experience of developing countries including China. This is also the premise for the establishment and operation of the AIIB.

The international economic and financial system established in 1945 has played an important role in the past 70 years. But at the time of its establishment, most developing countries did not have the speaking right. After years of development, the balance between the economic capabilities of developing and developed countries has undergone tremendous changes. The total GDP of developing countries is growing rapidly and they are becoming more active in international affairs. More and more developing countries hope to promote the reform of the existing regional and international financial system and gain a greater voice in it. Therefore, it is increasingly important to listen to the needs of developing countries and learn from their development experience. However, existing institutions are struggling to meet the development needs of these countries in terms of further access to investment (Ella, 2021). Reforming the existing international economic system is not easy. After the global financial crisis, China lobbied vigorously to increase investment in the International Monetary Fund and the World Bank and gain greater control, but this was pushed back hard by the U.S. (Wilson, 2020). It is difficult for developing countries represented by China to obtain voting rights commensurate with their economic influence. In 2014, before the official establishment of the AIIB, the *Guardian* pointed out in an editorial that starting in 1945, the US-controlled World Bank and the International Monetary Fund, together with the US Treasury, maintained and controlled the global economy. Reforming it is almost impossible (*Guardian*, 2014, cited in People's Republic of China Ministry of Commerce, 2015).

Since the establishment of the Bretton Woods system, developing countries and emerging economies have played an important role in promoting the improvement of



the international economic and financial system. As a region where a large number of developing countries are located, Latin America actively calls on traditional international and regional financial institutions to pay attention to their development needs. For example, as early as 2002, the representative of Brazil who attended the United Nations International Conference on Financing for Development once said that the World Bank and other international financial institutions attach importance to financing social welfare projects and ignore loans for infrastructure. In the view of the representative of Brazil, the economic development of these countries cannot be achieved without increasing investment in infrastructure in developing countries (Xinhuanet, 2002). Taking the Inter-American Development Bank, which serves American countries, as an example, Latin American countries actively advocate reforming it to meet the practical needs of Latin American economic and social development. The Minister of Economy of Argentina (2010) has called that the Inter-American Development Bank must be reformed in order to promote the development of Latin American countries. The Brazilian Minister of Finance (2010) also stated that the current operating mechanism of the Inter-American Development Bank is unsatisfactory and should be reformed to establish an efficient management and decision-making mechanism in order to provide financial support for the sustainable development of the regional economy and society.

Consistent with the goals that Latin American countries hope to achieve, promoting the reform of the international economic and financial system is one of the important goals of the AIIB (Jin, 2021). China is an active participant and beneficiary of the international development system, as well as a constructive contributor. Proposing the establishment of the AIIB is a constructive move by China to provide international public goods, and it reflects China's drive to improve the existing international economic system. The establishment of the AIIB conforms to the trend of the adjustment and evolution of the world economic structure and helps to promote the development of the global economic governance system in a more just, reasonable, and effective direction (Xi, 2016). Taking the selection of managers as an example, although China is the largest shareholder of the AIIB, it will not dominate it. It is stipulated in the "AIIB Agreement" that managers should be selected according to the principles of openness, transparency, and merit-based selection. This is also an embodiment of its modern governance philosophy and reflects the AIIB's efforts to serve global governance. China also does not have the veto power to amend the "AIIB Agreement". The AIIB pays attention to the areas of infrastructure construction that are relatively

neglected by traditional multilateral development banks, supplements them in terms of functions, and advocates an international development concept that is more in line with the needs of developing countries. "Eritrea Image" believes that the establishment of the AIIB is a serious challenge to the Asian Development Bank led by Japan, the World Bank and the International Monetary Fund led by the U.S., which can prompt the existing multilateral financial institutions to face up to the problem and change the rules. In the long run, the AIIB will benefit developing countries outside Asia, such as Latin America (Eritrea Image, 2015, cited in People's Republic of China Ministry of Commerce, 2015). David Dollar, a former World Bank official before the AIIB's role as a pro bono adviser, told the Financial Times that the World Bank had become so inefficient and risk-averse that many countries were reluctant to turn to it to finance infrastructure (Dollar, 2015, cited in People's Republic of China Ministry of Commerce, 2015). It can be seen that when more and more developing countries become members of the AIIB and choose to obtain infrastructure construction funds through the development bank, the existing traditional economic and financial organizations will have greater motivation and possibility to carry out gradual reforms, in order to better meet the development needs of developing countries such as Latin American countries.

The premise of the expected positive effect on the international economic and financial system is that the AIIB can effectively perform its purpose and functions in the international financial market. In fact, since its establishment, AIIB has maintained the highest credit rating and stable rating outlook of the three major credit rating agencies, Fitch, Moody's, and Standard and Poor's. This also means that the AIIB's business performance and development prospects have been recognized by the international market, with a solid governance structure, sound capital base, strong liquidity position, and high-quality risk management capabilities. As a multilateral development bank dominated by developing countries, the AIIB does play an important role in investment projects in infrastructure and other productive sectors (Li, 2021). This also allows the AIIB to truly serve the international economic and financial system, enabling it to promote inclusive development around the world and benefit Latin American member countries. In this new pattern, countries from Asia, Latin America, and other regions can pursue and expand common interests, overcome common difficulties, maintain international financial stability, and promote economic growth.

#### **4.2.3.2 Closer Cooperation between Old and New Financial Institutions**

The AIIB's mission also includes working closely with other multilateral and bilateral

development agencies to advance regional cooperation and partnerships to address development challenges. Article 35 of the “AIIB Agreement” also stipulates that the AIIB shall cooperate closely with other international financial institutions in an appropriate manner. In terms of relations with other multilateral development banks, the AIIB pursues open regionalism and, through its own advantages and characteristics, adds vitality to the existing multilateral system and promotes the common development of multilateral institutions. In the field of infrastructure financing, there is huge room for complementarity between old and new institutions. The AIIB cooperates with existing institutions through various forms of cooperation such as co-financing, knowledge sharing, and capacity building, thereby contributing to infrastructure connectivity and sustainable economic development (Xi, 2016).

For Latin American countries, the cooperation between AIIB and financial institutions that are important to Latin American countries can better play the role of providing international public goods for them, supplement existing financial institutions, and provide them with more adequate financing funds and more opportunities. Before the official establishment of the AIIB, Lagarde (2015), President of the International Monetary Fund, expressed willingness to cooperate with the AIIB to jointly provide financing for infrastructure construction projects. In 2016, the AIIB and the World Bank signed an investment project co-financing framework agreement to provide co-financing for infrastructure construction projects. In 2017, the AIIB signed a memorandum of understanding with the World Bank to enhance cooperation and knowledge sharing between institutions, thereby strengthening cooperation in areas such as development financing and analytical research. In the same year, the AIIB signed the Memorandum of Understanding on Strengthening Cooperation under the Belt and Road Initiative with the World Bank, New Development Bank, Asian Development Bank, European Investment Bank, European Bank for Reconstruction and Development, and the Ministry of Finance of China. The cooperation aims to jointly increase support for infrastructure and interconnection projects, and build a stable, diversified, and sustainable financing mechanism for the Belt and Road Initiative. As of the end of 2019, before the start of the pandemic, 30 of the 63 projects funded by the AIIB were co-financed with other multilateral development banks.

In addition to international financial institutions, AIIB also cooperates with regional financial institutions in Latin America. This can also make Latin American countries more directly feel the importance the AIIB attaches to the Latin American region. The Inter-American Development Bank is one of the most important multilateral

development banks for Latin American countries. The bank has long tried to co-finance with China. For example, before the establishment of the AIIB, the Inter-American Development Bank established a financing partnership with the Export-Import Bank of China and the People's Bank of China, focusing on Latin American countries. In 2017, AIIB and the Inter-American Development Bank signed a strategic partnership agreement. The two sides believe that Latin America has a serious infrastructure deficit, and it is difficult to meet its funding needs only by relying on a single institutional strength (Méndez, 2018). As another successful example in emerging countries, the Latin American Development Bank is the only development bank dominated by Latin American countries, and it is also a development bank that is truly owned by developing countries. Enrique Garcia, President of the Latin American Development Bank, also expressed his expectation for signing a memorandum of understanding with AIIB and for further cooperation. This promising prospect of cooperation may also have a positive impact on the attitude of Latin American countries towards the AIIB (Garcia, 2015, cited in CNR, 2015).

Through the analysis in this chapter, we can further answer the research questions: First, as an international institution, the AIIB has distinct advantages. It can avoid the problem of existing multilateral financial institutions interfering in the internal affairs of Latin American countries, and pay more attention to the voice of developing countries. The response mechanism established by the AIIB in the epidemic can also actually benefit Latin American countries. Second, Latin American countries have a strong demand for infrastructure construction, and the AIIB can provide abundant funds for this demand, thereby improving the supply of public goods and even international public goods in Latin American countries. On this basis, the AIIB itself, as an international public product provided by China, promotes the construction of an international economic and financial system that better reflects the needs of Latin American countries, and cooperates closely with existing financial institutions, so as to complement the existing multilateral development bank system and further enrich global financial public goods. This will also benefit Latin American countries. Therefore, Latin American countries are willing to support and join the AIIB.

### **4.3 Obstacles and Suggestions for Further Extension of AIIB in Latin American**

## **Countries**

Latin American countries' participation in the AIIB remains limited. Countries in the region still have low stakes in the AIIB. According to the data released by the AIIB's official website, the total subscriptions amount of the six countries that have officially joined the AIIB is US\$184.6 million, accounting for only 0.1906%. The corresponding total number of votes is 11590, accounting for 1.0252%. Canada, another important developed country member in the Americas, has a subscription amount of US\$995.4 million, with a single country accounting for 1.0269%. The number of votes was 11,478, which is also similar to the total proportion of Latin American countries. Therefore, the influence of Latin American members in the AIIB still has a lot of room for development. This chapter will analyze the problems that may hinder the further expansion of AIIB in Latin American countries and try to provide corresponding suggestions.

### **4.3.1 Political and Economic Issues in Latin American Countries**

First, domestic political and economic crises in Latin American countries may hinder the process of joining the AIIB. Taking Brazil as an example, when the AIIB was founded, it planned to subscribe for share capital of US\$3.18 billion as a major founding member. However, due to the economic and political crisis that followed, the Brazilian government reduced the subscribed share capital to US\$5 million due to financial constraints and extended the deadline for becoming a full member of the AIIB several times. Although Brazil finally officially joined the AIIB on November 2, 2020, the significant reduction in the subscribed share capital has largely limited its influence on the AIIB. In addition to Brazil, Venezuela and Bolivia, which have not yet officially joined the AIIB, have also been negatively affected by the turmoil in recent years. Since the premise of becoming a full member is that the domestic government needs to approve the agreement and subscribe to the corresponding share capital, political and economic turmoil will largely hinder the process of Latin American countries to formally join the AIIB and conduct international cooperation through this platform.

On the other hand, ongoing political and economic uncertainty can also exacerbate potential investment risks and challenges. The financing situation of Latin American countries that have joined the AIIB in future projects may have an impact on the willingness of other countries to join. Infrastructure construction often has a long cycle and itself has high financing risks. For cross-border infrastructure investment, it is more

likely to be disturbed by complex factors. There are certain investment risks in Latin American countries, such as political risks caused by government changes, and project stagnation caused by military confrontation. In addition to this, the unstable situation may also make the solvency of the governments of the economically vulnerable lending countries insufficient. Coupled with the impact of the epidemic, the risk of default may further increase. All these may pose huge challenges for the AIIB. In terms of the public-private partnership (PPP) model it advocates, the willingness of private investors may be more significantly negatively affected.

Regarding the political and economic issues of Latin American countries, on the one hand, the AIIB should fully respect the actual conditions and wishes of Latin American countries, and provide Latin American countries with a platform for cooperation on the basis of balance and need. On the other hand, the AIIB needs to be more cautious when choosing investment projects in Latin American countries in the future, and actively learn from the experience and practices of more mature international infrastructure investments to prevent risks. The next section will specifically discuss the AIIB's standards for environmental protection and social security.

### **4.3.2 Environmental and Social Standards Issues**

At the beginning of its establishment, whether the AIIB could truly become a high-standard multilateral development institution was questioned by the governments of countries represented by the U.S. and Japan. Such doubts may have a negative effect on the international image of the AIIB. At the same time, actual environmental and social risks may also adversely affect investment and project development. These may increase the concerns of Latin American countries and slow down their process of joining the AIIB.

#### **4.3.2.1 Doubts and Risks**

At present, the AIIB has established a set of relatively standardized project operation rules, including project selection, risk management, environmental and social governance assessment, etc. In the selection of projects, the AIIB applies Project Prioritization and Quality to select projects to ensure that they meet the priority areas of the AIIB. On this issue, the AIIB Jin Liqun (2019) once summarized that the AIIB mainly selects projects based on three criteria. They are financial sustainability, environmental improvement, and the support of the local population. On the management issues after the investment, the project team needs to submit a report to

the management every quarter, so that the management can fully understand the progress of the investment project in a timely manner (Ou, 2021). The Environment and Social Framework, launched in 2016, aims to guide the AIIB and its clients in managing the potential environmental impacts and social risks of financing projects. The Policy on Prohibited Practices clearly defines the prohibited behaviors that participants must not commit in the project, including coercion, collusion, corruption, fraud, resource misuse, obstruction, and theft. In addition, the AIIB has also established a Project-affected People's Mechanism. Those affected by the project can have a dialogue with the AIIB on the environmental or social impacts of the project, and the AIIB will then investigate whether the project fails to meet its ESF-related obligations under this mechanism. In terms of information transparency, the AIIB began to apply Policy on Public Information in 2018.

Despite the establishment of frameworks and mechanisms such as ESF, PPM, etc., the AIIB's standards in terms of environment, society and transparency still raise concerns. For example, in a report about AIIB published in 2020, Korinna Horta argued that in order to remain competitive, other multilateral development banks may be influenced by the AIIB and weaken relevant standards such as the environment and information transparency. This "race to the bottom" risk has raised concerns in Latin American countries. Horta questioned that the open-ended and flexible ESF is difficult to provide a firm basis for practice. The researcher also believes that PPM establishes burdensome preconditions for affected communities. This high threshold for appeals makes it less likely to seek redress through this mechanism.

The Coca Codo Sinclair hydropower plant serves as a warning to the AIIB of potential corruption. The landslide accident of the Coca Codo Sinclair hydropower station constructed by Sinohydro Corporation in eastern Ecuador has resulted in the casualties of many employees. This has had a negative impact locally. The project has been accused of being built using outdated technology and failing to produce the estimated amount of energy, while overrunning its \$2 billion budget. The incident left contractor Sinohydro facing corruption investigations. Its negative impact has made the Ecuadorian authorities considered to be more cautious and learn lessons on related issues (Lozano, 2020). Paulina Garzón, director of the China-Latin America Sustainable Investment Initiative (CLASII) at the American University in Washington, also believes that such programs are not conducive to encouraging other countries to participate in related cooperation.

At the same time, the discrepancy between the AIIB's rhetoric in formal settings and the practical implications of its investments for sustainable development has raised questions. One example is that in 2017, President Jin Liqun declared that the AIIB had no coal-related projects. But in fact, the AIIB later invested in the Emerging Asia Fund, and by providing loans to third-party financial intermediaries, AIIB funds can actually be used for fossil fuel projects. Such loans are considered high risk because the projects they finance are often not overseen by the AIIB's own social and environmental standards. That is to say, AIIB funds may end up being used for more controversial projects (Geary, 2018).

In addition to this, the ability to actually enforce environmental and social standards is also a problem. The core values of AIIB are lean, clean, and green. President Jin Liqun has emphasized on many occasions the simplicity of the AIIB's setup, and regards it as an advantage that differentiates the AIIB from traditional multilateral development banks. For example, the AIIB operates in only one physical location, its Beijing headquarters, and will only establish a physical office in the country where the project is carried out if the benefits outweigh the costs. Elliot Wilson (2020) likened it to “no fat on the bones”, and while lean is an advantage, it also makes the AIIB more limited in what it can do. To ensure that projects follow environmental and social guidelines, multilateral development banks need to be involved in and monitor the procurement process. Therefore, with no presence and employees who can speak the local language, the AIIB may not be able to meet its expected highest standards.

#### **4.3.2.2 Possible Solutions**

In order to achieve the expected goals and truly achieve the highest social and environmental standards promised in the voice of doubt, when selecting loan projects, AIIB should not only consider the connectivity of infrastructure, but also the connectivity and integrity of the ecosystem, as well as the potential impact on society. The AIIB should fully learn from the good experience of existing multilateral development banks in environmental and social security policies. At the same time, the AIIB also needs to focus on the achievability and political feasibility of the institution, pay attention to the problems that are currently difficult for multilateral financial institutions to solve, and on the basis of ensuring legitimacy, try to increase its attractiveness to Latin American countries as much as possible.

In 2020, the AIIB released its first medium- and long-term development strategy (2020-2030), which states that the AIIB's mission is to finance future-oriented infrastructure.



AIIB President Jin Liqun explained (2021) that future-oriented infrastructure refers to the infrastructure that can promote local economic and social development without causing damage to the ecological environment, and is jointly promoted by using digital technology. The AIIB's investment direction is green infrastructure, promoting connectivity and regional cooperation, using technology to promote infrastructure, and mobilizing private capital to participate in infrastructure investment. The AIIB has set a number of targets, including climate finance targets. The AIIB's total cumulative climate financing is expected to reach US\$50 billion by 2030. By 2025, climate finance will account for 50% of approved financing (Jin, 2022). Of course, what is more important than strategic planning is the actual actions of the AIIB.

Broad coverage and effective surveillance may be one possible measure. Oversight should exist throughout the entire process from project formulation, loan approval, project implementation, project delivery, and loan repayment. Especially for projects with huge funding scales, the supervision and accountability system should not be neglected. For example, Economic Consultant Alberto Acosta Burneo of Análisis Semanal argues that many financing contracts themselves require the employment of certain operators and builders, without reasonable competition to determine a better operator. This requires transparency in the tender process, and citizens should have access to an open recruitment process (Lozano, 2020). Greater transparency will facilitate broader oversight by civil societies in Latin American countries. Its role includes preventing and combating potential corruption and reducing risks to private sector investment. Physical offices may be more conducive for AIIB to monitor projects and implement environmental and social standards. The AIIB can consider setting up an office in a major Latin American country, such as Brazil or Argentina, to serve the region while further investing in infrastructure construction in Latin American countries. The AIIB needs to be lean while ensuring that projects follow environmental and social standards.

### **4.3.3 Intense International Competition**

At present, traditional donor countries and international financial institutions still have a strong influence on the international financial market. The prospects for investment in infrastructure construction are promising and are attracting more and more players. For example, B3W may compete with AIIB for investment in infrastructure projects in Latin America. Potentially intensifying competition is also a challenge for the AIIB to

attract more Latin American countries.

In response to such competition, the AIIB can take more account of the actual needs of different countries at different stages and increase the attractiveness of financing. The AIIB needs to understand the concerns of relevant countries and help them understand the AIIB's ideas and practices. For example, economist Jorge Calderón Salazar, dean of the Arcos Technological Education Institute in Guayaquil argues that Ecuador's current low production levels are partly due to the lack of an integrated irrigation system, and hopes that AIIB funds can be used more for its agriculture modernization. Listening to the needs of countries that have joined the AIIB and developing cooperation may form a great attraction for Latin American countries that are hesitating to join the AIIB. Of course, this improvement proposal also relies on in-depth exchanges with the governments of Latin American countries to further improve the level of cooperation. Chinese President Xi Jinping (2016) pointed out that the AIIB should take into account the diverse needs of developing member countries, innovate business models and financing tools, and help member countries develop more high-quality, low-cost infrastructure projects.

In addition, to strengthen cooperation with member countries, the AIIB needs to strengthen its ties with national executive departments, legislative departments, and the public. The key issues in communicating with the public are the AIIB's achievements, procurement efficiency, supervision, and accountability, etc. The stronger disclosure policy mentioned in the previous section will enhance the legitimacy of AIIB's governance, and will also greatly enhance the governance of it. Regarding the doubts of some countries and the possible information gap, the impact of information disclosure and the cost of providing information should be fully weighed, and the institutional design should be improved to ensure the release of proper information, enhance credibility, reduce prejudice, and reduce moral hazard.

Healthy competition depends on the AIIB to strengthen cooperation with existing multilateral development institutions to jointly promote regional infrastructure construction in Latin America and the improvement of international development financing rules. Due to the large demand for funds, some infrastructure construction projects require the cooperation of the banks like World Bank, the Inter-American Development Bank, and the Latin American Development Bank to provide sufficient financing support. Given that the Chinese Vice Foreign Minister's (2021) attitude towards B3W is not to exclude good cooperation plans proposed by other countries, the

AIIB may even consider working with B3W to promote infrastructure construction in Latin America. Through project cooperation, AIIB can exchange project evaluation and business operation standards while reducing project financing risks and costs.

To sum up, the factors that may hinder Latin American countries from joining the AIIB mainly include their own political and economic problems, doubts about the environmental and social standards of the AIIB, and increasingly intense international competition in the field of infrastructure investment. In this regard, the AIIB should handle the doubts and challenges it faces in accordance with professional principles based on the spirit of multilateralization, openness, and cooperation, and truly realize its high-standard commitment to environmental protection and social security. At the same time, AIIB should better meet the development needs of Latin American countries by strengthening communication and cooperation with existing multilateral development institutions, so as to become an open, diverse, equal, transparent, efficient, and highly competitive international financial institution.

## 5. Conclusion

After analysis, we can answer why the AIIB can continue to expand its members in Latin American countries.

On the one hand, the power transition between the U.S. and China provides an important international context for Latin American countries to choose to join the AIIB. Compared with the dominant state U.S., China, the challenging state, has a significant advantage in the speed of gaining power. The power transition is taking place between the two sides. As the first multilateral financial institution initiated by China, the AIIB is not only a manifestation of the change in power between them but will also further influence the process of power transition. Specifically, in Latin America, the power of the U.S. has declined, while China's power in Latin America is experiencing an increase due to factors such as trade, investment, and political influence. Against this background, more and more Latin American countries are willing to join the AIIB initiated by China under the pressure of the U.S.

On the other hand, the benefits provided by the AIIB are of great attraction to Latin American countries. First of all, for Latin American countries, the AIIB has significant institutional advantages. By avoiding interference in the internal affairs of Latin American countries, paying attention to the voice of developing countries, and quickly establishing an effective response mechanism in the context of the epidemic, the AIIB can help Latin American members continue to benefit from a relatively stable environment. Second, Latin American countries have a great demand for infrastructure construction, and the AIIB's main task is to provide financing for member countries' infrastructure and related projects. By joining the AIIB, Latin America can obtain the funds to provide public goods and even international public goods from mutually beneficial economic relations. Finally, as an international public good itself, the AIIB has formed a useful complement to the existing multilateral development banking system. It makes the international economic and financial system reflect the needs of Latin American countries more, and at the same time, through cooperation with existing financial institutions, it has jointly enriched the global financial public goods and benefited Latin American countries.

On the basis of answering the research questions, this paper also realizes that the extension of AIIB in Latin America is not unimpeded. Therefore, the last part analyzes the obstacles faced by the AIIB to further attract member countries in the region.

Possible obstacles include the political and economic problems of the Latin American countries, the doubts and risks faced by the AIIB in terms of environmental and social standards, and the increasingly intense competition in the field of infrastructure construction investment. This thesis puts forward corresponding suggestions to help the AIIB to further enhance its attractiveness to Latin American countries and to better meet their development needs while fulfilling its commitment to high standards of environmental and social security.

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