



Research Office
Legislative Council Secretariat

Fact Sheet

Hong Kong's participation in the Asian Infrastructure Investment Bank

FS03/16-17

1. Introduction

1.1 The Asian Infrastructure Investment Bank ("AIIB") is a new multilateral development bank officially launched on 16 January 2016. With over 50 member countries, AIIB is designed to provide financial support for infrastructural development and regional connectivity in Asia. According to the Government, Hong Kong has been officially invited to join AIIB. The relevant procedures for the admission of Hong Kong as a non-sovereign member of AIIB are expected to be completed by the middle of 2017.¹

1.2 At the meeting of the Panel on Financial Affairs to be held on 16 March 2017, the Government will brief Members on Hong Kong's participation and membership in AIIB. The case of Hong Kong joining similar multilateral organizations as a member is not often seen.² A more relevant one is Hong Kong's joining of the Asian Development Bank ("ADB") as a regional member back in 1969. ADB is a multilateral financial institution for regional development with the principal goal of poverty reduction. To facilitate Members' discussion, the Research Office has been requested to prepare this fact sheet to provide information on (a) AIIB's membership and structures, and (b) the experience of Hong Kong in joining ADB with respect to its capital contributions and related arrangements.

¹ See 2017 Policy Address (2017) and Financial Services and the Treasury Bureau (2017a).

² Many multilateral organizations allow only sovereign states to join as full members. For example, for the International Monetary Fund and the World Bank, Hong Kong is not a member and it participates in the activities of the two organizations as part of the delegation of the People's Republic of China.

2. Asian Infrastructure Investment Bank

2.1 The initiative of establishing AIIB was first unveiled by President Xi Jinping in his visit to the Southeast Asian countries in October 2013. The idea attracted favourable response and a total of 57 countries have signed or endorsed the "Memorandum of Understanding on Establishing AIIB" to become prospective founding members. After a series of negotiation meetings held among these prospective founding members, the final text of Articles of Agreement ("AoA") was confirmed in May 2015. AoA entered into force on 25 December 2015, and AIIB officially commenced operations on 16 January 2016 with the principal office located in Beijing.³ The list of founding members⁴ is given in **Appendix**.

2.2 AIIB provides sovereign-backed and non-sovereign-backed financing⁵ for sound and sustainable projects in areas such as energy and power, transportation and telecommunications, rural infrastructure and agriculture development, water supply and sanitation, and environmental protection. AIIB is a key enabler in channeling funds into infrastructure projects under the Belt and Road Initiative⁶. However, it also finances projects in emerging economies not covered by the Initiative.⁷ According to AoA, financing of projects can be provided in a number of ways, including loans, equity investment in enterprises, and guarantee.

AIIB's membership and structures

2.3 Membership of AIIB is open to members of the International Bank for Reconstruction and Development⁸ or ADB, and is divided into regional and non-regional members. Regional members are members located in

³ See AIIB (2017b).

⁴ Founding members are those who have signed AoA before end-December 2015, and fulfilled other conditions of membership before end-December 2016 or a later date decided by the Board of Governors.

⁵ Sovereign-backed financing means either a loan to a member or a loan that has been guaranteed by a member. It also means a guarantee that covers debt-service defaults resulting from government failure to meet a specific obligation in relation to the project or from a borrower's failure to make a payment under the loan, and is accompanied by an indemnity by the member of AIIB. Non-sovereign-backed financing is basically any financing that does not fall within the definition outlined above.

⁶ The Belt and Road Initiative is a significant development strategy launched by China with an aim of connecting Asia, Europe and Africa for economic cooperation.

⁷ See China Daily Asia (2016).

⁸ The International Bank for Reconstruction and Development is part of the World Bank Group providing support to middle-income countries to reduce poverty.

geographical region classified as "Asia" and "Oceania" by the United Nations. Apart from founding members, additional members may be admitted to AIIB by a Special Majority vote⁹ of the Board of Governors. As stipulated in Article 3(3) of AoA, "[i]n the case of an applicant who is not sovereign or not responsible for the conduct of its international relations, application for membership in AIIB shall be presented or agreed by the member of AIIB responsible for its international relations". For the case of Hong Kong, the Government has indicated that the Central People's Government had submitted a formal application to AIIB on behalf of Hong Kong.¹⁰

Capital base

2.4 According to AoA, the authorized capital stock of AIIB is US\$100 billion (HK\$776 billion), divided into 1 million shares with a par value of US\$100,000 (HK\$776,000) each, available for subscription by members. The authorized capital stock is divided into paid-in shares and callable shares¹¹. Each member's subscription to the original authorized capital stock shall be in the proportion of 20% paid-in shares and 80% callable shares. AoA requires that regional members of AIIB hold a minimum of 75% of capital stock unless otherwise agreed by the Board of Governors, while the remaining to be held by non-regional members.

2.5 Allocation of capital stock to members is based on the relative share of the global economy, which is measured by reference to Gross Domestic Product.¹² As such, China held the greatest stake with about 32.4% shareholding as at 10 February 2017, followed by India (9.1%) and Russia (7.1%). Similar to other multilateral development banks, the authorized capital stock of AIIB will undergo regular review and may be increased subject to the approval of the Board of Governors. In addition to capital stock, AIIB will also raise funds through other means such as issuance of bonds and other kinds of borrowing in the market.

⁹ A Special Majority vote requires an affirmative vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of the members.

¹⁰ See Financial Services and the Treasury Bureau (2017b).

¹¹ Payment of the amount subscribed to the callable shares of AIIB shall be subject to call only as and when required by AIIB to meet its liabilities.

¹² For non-regional members, the share in Gross Domestic Product would be indicative only. See AIIB (2015b).

Governance

2.6 AIIB comprises the Board of Governors, Board of Directors, President, Vice-Presidents, and other officers and staff. Each member is represented on the Board of Governors with the appointment of one Governor and one Alternate Governor. The Board of Governors has the power to, among others, admit new members, change the authorized capital size of AIIB, and elect President and Board of Directors. The Board of Directors¹³ is mainly responsible for the direction of the general operations of AIIB, and exercising the powers delegated by the Board of Governors. The President, elected by the Board of Governors, acts as the legal representative of AIIB and is the chief of the staff of AIIB.¹⁴

2.7 According to Article 28 of AoA, AIIB members' voting power is the sum of their (a) basic votes, which are equally allocated to each member and constitute 12% of the total number of votes; (b) share votes, with one vote corresponding to one share of capital stock held by the member; and (c) where applicable, founding member votes with each founding member allocated 600 shares. Generally, all matters before the Board of Governors are decided by a majority of the votes cast, except those expressly provided in AoA.

Funding of operations

2.8 In the first year of its operation, AIIB has funded nine infrastructure projects in seven countries (including Pakistan, Bangladesh and Tajikistan) with approved loans of around US\$1.73 billion (HK\$13.4 billion).¹⁵ The operations of AIIB are funded by (a) ordinary resources, such as authorized capital stock, and (b) Special Funds designed to serve specific purpose and functions. For the latter, a special fund, namely the AIIB Project Preparation Special Fund, was set up in June 2016 to provide grants for carrying out technical preparation (such as procurement advisory services and environmental and social assessment) for projects financed by AIIB in eligible member countries.¹⁶ The Fund is open to member contributions and initially it has received a

¹³ The Board of Directors is made up of 12 members, nine of whom are elected by the Governors representing the regional members, and three elected by the Governors representing non-regional members.

¹⁴ AoA requires that the President of AIIB shall be a national of a regional member country. The current AIIB President is Mr. Jin Liqun. He is a national of the People's Republic of China.

¹⁵ See AIIB (2017b).

¹⁶ Eligible AIIB members are those who are the funding recipients from the International Development Association, which is part of the World Bank providing help to the world's poorest countries.

financial support from China and the United Kingdom in an amount of US\$50 million (HK\$388 million) and £\$40 million (HK\$388 million) respectively.

Hong Kong's membership in AIIB

2.9 Hong Kong has been officially invited to join AIIB and the relevant procedures for admission as a non-sovereign member are expected to be completed by the middle of this year. According to the Government, Hong Kong will subscribe 7 651 capital shares of AIIB (i.e. about 0.765% of total AIIB capital shares), of which 20% are paid-in shares and 80% callable shares. The total capital subscription is US\$765.1 million (HK\$6 billion). Of this amount, US\$153 million (HK\$1.2 billion) are the paid-in portion requiring actual payment and the remaining as contingent liability of Hong Kong.

2.10 Hong Kong's participation in AIIB is considered to be conducive to further developing the local financial services industry and strengthening Hong Kong's position as a global financial centre through the provision of financial and professional services to support the operations of AIIB. Besides, it also helps enhance the economic connectivity and cooperation with other Asian economies. The Government suggests that Hong Kong's joining will also help strengthen its standing and credibility in bidding for AIIB to set up a sub-office in Hong Kong.¹⁷

3. Hong Kong's participation in the Asian Development Bank

3.1 ADB is a multilateral development finance institution founded in 1966 to finance development in the Asia and Pacific region with the aim of reducing poverty. It supports the needy member countries or economies by providing them with loans, grants and technical assistance. Operations of ADB's are funded from (a) its ordinary capital resources such as paid-in capital and retained earnings, and (b) Special Funds such as the Asian Development Fund. ADB is composed of 67 members, of which 48 are regional members (including Hong Kong) and the rest are non-regional members.

¹⁷ See Legislative Council (2015) and Financial Services and the Treasury Bureau (2017b).

3.2 According to the Agreement Establishing the Asian Development Bank, the original authorized capital stock of ADB was US\$1 billion (HK\$5.9 billion¹⁸), divided into 100 000 shares with a par value of US\$10,000 (HK\$59,000). At that time, each initial subscription of the authorized capital comprised 50% paid-in shares and 50% callable shares¹⁹. Over the years, ADB has undergone five replenishments (referred to as general capital increases) to enlarge its capital base, in order to ensure that it could continue the financing activities without disruption. At end-2015, ADB had a total authorized capital of 10 638 933 shares valued at US\$147.5 billion (HK\$1,145 billion). The three largest members were Japan (accounting for 15.6% of total shares), the United States (15.5%) and China (6.5%).²⁰

Hong Kong as a member of ADB

3.3 Hong Kong has been a member of ADB in its own right since March 1969. After the handover of sovereignty on 1 July 1997, it has been participating under the name of "Hong Kong, China". Back in September 1967, the Government obtained funding approval of US\$8 million (or the equivalent at that time of HK\$47.2 million) from the Finance Committee of the Legislative Council for initial capital subscription. Upon joining ADB in March 1969, Hong Kong subscribed a total of 800 shares, of which 50% was paid up²¹ and the other 50% as callable shares. Payment of the paid-in portion was made in four equal annual installments from 1969 to 1972.

3.4 Hong Kong's initial subscription of US\$8 million (HK\$47.2 million) represented about 0.8% of ADB's original authorized capital. According to the Government, allocation of capital stock among regional members was determined by ADB taking into account the factors of the per capita Gross Domestic Product, total exports and tax revenue of the member economies.²²

¹⁸ Based on the exchange rate used for the conversion of Hong Kong's initial capital subscription from US dollar to Hong Kong dollar in 1969.

¹⁹ Callable shares are subject to call by ADB only as and when required to meet ADB's obligations.

²⁰ See Asian Development Bank (2016a) and Asian Development Bank (2017a).

²¹ For the paid-up portion of the subscription, half was paid in Sterling and the other half in non-negotiable, non-interest-bearing promissory notes denominated in Hong Kong dollar.

²² See Colonial Secretariat (1967a) and Colonial Secretariat (1967b).

3.5 Since joining ADB, Hong Kong has subscribed fully to all five general capital increases, which obtained the approval of the Finance Committee in 1972, 1977, 1986, 1994 and 2010 respectively. Overall, Hong Kong has subscribed a total of 57 810 shares, comprising 2 892 paid-in shares and 54 918 callable shares. At ADB, Hong Kong ended up holding about 0.545% of total shares and 0.735% of total votes at end-2015.²³ So far there has not been a call on the callable shares, which have remained a contingent liability for Hong Kong equivalent to about HK\$6 billion. Hong Kong's financial obligation to ADB has been under the guarantee of the Central People's Government since 1997.

3.6 **Table 1** below lists out Hong Kong's past subscription to the capital stock of ADB and the relevant funding approval by the Finance Committee.

Table 1 – Hong Kong's subscription to the capital stock of the Asian Development Bank

Subscription	Total subscription amount ⁽¹⁾ (million)	Paid-in portion		Callable portion		Approval by the Finance Committee
		Amount ⁽¹⁾ (million)	No. of shares	Amount ⁽¹⁾ (million)	No. of shares	
Initial subscription (1969)	US\$8 (HK\$47.2)	US\$4 (HK\$23.6)	400 (50%)	US\$4 (HK\$23.6)	400 (50%)	6 September 1967
First general capital increase (1971)	US\$12 (HK\$72.7)	US\$2.4 (HK\$14.5)	240 (20%)	US\$9.6 (HK\$58.2)	960 (80%)	26 April 1972
Second general capital increase (1977)	US\$27 (HK\$151.7)	US\$2.7 (HK\$15.2)	270 (10%)	US\$24.3 (HK\$136.5)	2 430 (90%)	1 June 1977
Third general capital increase (1986)	US\$52.9 (HK\$331.8)	US\$2.6 (HK\$16.6)	247 (5%)	US\$50.3 (HK\$315.2)	4 688 (95%)	21 May 1986
Fourth general capital increase (1994)	US\$135.2 (HK\$1,054.7)	US\$2.3 (HK\$18.5)	193 (2%)	US\$132.9 (HK\$1,036.2)	9 442 (98%)	24 June 1994
Fifth general capital increase (2010)	US\$593.6 (HK\$4,660.5)	US\$18.6 (HK\$146.1)	1 542 (4%)	US\$575 (HK\$4,514.4)	36 998 (96%)	23 April 2010

Note: (1) The figures in Hong Kong dollar were the stated figures provided by the Government at that time or based on the exchange rate used by the Government at that time.

Sources: Financial Branch, Colonial Secretariat (1972), Finance Branch, Colonial Secretariat (1977), Monetary Affairs Branch (1986), Financial Services Branch (1994), Financial Services Bureau (2001), Financial Services and the Treasury Bureau (2010), and Financial Services and the Treasury Bureau (2017d).

²³ See Asian Development Bank (2016b).

3.7 Apart from capital subscriptions, Hong Kong has also made voluntary contributions to support ADB's activities over the years. In particular, it has been a contributor to the Asian Development Fund ("ADF") since 1983. ADF is the largest Special Funds of ADB providing financial support to the most needy members. It is replenished by members periodically. Up to the last replenishment exercise in 2013, total contributions made by Hong Kong amounted to US\$115.25 million (HK\$894 million).²⁴

3.8 As a developed economy, Hong Kong is now no longer eligible for ADB assistance.²⁵ However, according to the Government, there are indirect economic benefits of contributing to ADB to the extent that companies in Hong Kong are able to bid for ADB projects. As at end-2015, Hong Kong companies have been awarded ADB-financed projects such as procurement contracts and consultancy services worth a total of US\$962 million (HK\$7.5 billion).²⁶

3.9 In ADB, each member is represented on the Board of Governors with the appointment of one Governor and one Alternate Governor. In this regard, Hong Kong is represented by the Financial Secretary as the Governor and the Chief Executive of the Hong Kong Monetary Authority as the Alternate Governor. The Board of Directors is elected by the Governors. There are 12 Directors on the Board and each of them represents one constituency. Hong Kong is within the constituency comprising 11 ADB members represented by the Australian Director.²⁷ In terms of administration, the Hong Kong Monetary Authority is responsible for coordinating matters relating to Hong Kong's participation in ADB, and its officials attend ADB's annual meetings and contribute to discussions on policy issues of common interest.

²⁴ See Financial Services and the Treasury Bureau (2017c).

²⁵ During 1972-1980, Hong Kong obtained five loans totalling US\$101.5 million (HK\$508 million) from ADB for financing its public housing projects. All loans were repaid in full by 1987.

²⁶ See Financial Services and the Treasury Bureau (2017c).

²⁷ See Asian Development Bank (2017b).

Founding members of AIIB (as at 10 February 2017)

Regional members⁽¹⁾

1. Australia
2. Azerbaijan
3. Bangladesh
4. Brunei Darussalam
5. Cambodia
6. China
7. Georgia
8. India
9. Indonesia
10. Iran
11. Israel
12. Jordan
13. Kazakhstan
14. Korea
15. Kyrgyz Republic
16. Lao People's Democratic Republic
17. Maldives
18. Mongolia
19. Myanmar
20. Nepal
21. New Zealand
22. Oman
23. Pakistan
24. Philippines
25. Qatar
26. Russia
27. Saudi Arabia
28. Singapore
29. Sri Lanka
30. Tajikistan
31. Thailand
32. Turkey
33. United Arab Emirates
34. Uzbekistan
35. Vietnam

Non-regional members⁽²⁾

1. Austria
2. Denmark
3. Egypt
4. Finland
5. France
6. Germany
7. Iceland
8. Italy
9. Luxembourg
10. Malta
11. Netherlands
12. Norway
13. Poland
14. Portugal
15. Sweden
16. Switzerland
17. The United Kingdom

Notes: (1) Kuwait and Malaysia are completing the membership process as a founding member.

(2) Brazil, South Africa, and Spain are completing the membership process as a founding member.

Source: AIIB (2017a).

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Asian Infrastructure Investment Bank

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