PUCP MUN 2025

| STUDY GUIDE

AIIB

Asian Infrastructure Investment Bank

Debt Dependency and Successive Borrowing in AIIB-financed Projects

INDEX

PUCP MUN 2025

LETTER FROM THE SECRETARY GENERAL

1. Letter from the Secretary General

Dear delegates and faculty advisors of PUCP MUN 2025,

It is an honor to address you as the Secretary-General of the 14th edition of PUCP MUN 2025. Over the past seven years of participating in Model United Nations, taking on various roles and engaging at both national and international levels, I have had the privilege of experiencing the transformation these events bring to young people. This experience has given me a unique perspective on MUN: they are one of the most powerful tools for youth education and empowerment, more than we often realize. MUN has changed my life, offering me the chance to enhance my leadership, public speaking, and teamwork skills, as well as gain a deep understanding of international issues. This long but rewarding journey has now led me to the honor of leading the biggest conference in the country, with the primary goal of providing you with a unique and formative experience at all levels.

For this edition, we have managed to bring together more than **1,000 participants** and, through great effort, we have established valuable connections with the United Nations and other international organizations. With the support of **Pontificia Universidad Católica del Perú**, this conference is grounded on three fundamental pillars: academic and organizational excellence, decentralization, and the formative experience we offer.

From my perspective, we have identified three key issues that will guide this conference. First, closing educational gaps to provide an accessible space for all students. Second, bringing Model United Nations closer to the real work of the United Nations. And third, placing the human factor at the center of discussions, recognizing that behind every committee and every debate are human lives directly impacted by the issues we address.

I deeply thank the team that has made this edition possible, as well as **PUCP** for its unwavering support. To you, delegates and participants, I assure you that you will experience a journey filled with learning and personal growth during **PUCP MUN 2025**. We eagerly await your participation and hope that you make the most of this opportunity.

Sincerely,

Micaela Loza Rivera
Secretary-General of PUCP MUN 2025

PUCP MUN 2025

COMMITTE GUIDE

2. Introduction to the Committee

In October 2013, during the Asia-Pacific Economic Cooperation (APEC) Summit in Bali, Indonesia, China put forward the idea of establishing a new multilateral development bank: the Asian Infrastructure Investment Bank (AIIB). The institution was envisioned as a vehicle to provide financing for infrastructure projects throughout Asia and in nearby regions (Weiss, 2017).

The Bank was formally launched in late 2015 with 57 founding members. Its articles of agreement outlined two categories of membership, regional and non-regional, reserving 75% of the total voting power for Asian members (Weiss, 2017). The AIIB officially began operations in 2016, quickly emerging as an important addition to the existing network of regional development banks. While many major economies, including 14 members of the G-20, decided to join, the United States opted to remain outside the institution (Kavvadia, 2025).

By January 2017, the AIIB had already approved nine projects with a combined investment of USD 1.7 billion. In its initial operations, China emphasized co-financing arrangements as a way of differentiating the Bank from its Belt and Road Initiative (BRI). Even so, observers raised questions about how China would balance its stated goal of building a high-standard, independent multilateral bank with its own strategic and economic priorities (Weiss, 2017).

Membership continued to expand over the following years, drawing not only Asian states but also European countries and, potentially, Canada. By the end of 2024, the AIIB had grown to 110 members, making it the world's second-largest development bank by number of participants, second only to the World Bank. In its first eight years, the AIIB committed around USD 48 billion in financing, not only within Asia but also in other regions. For instance, Egypt emerged as its tenth-largest borrower, securing nearly USD 1.4 billion in approved projects (Kavvadia, 2025).

Within the AIIB's Internal Legal Framework, governance and oversight are structured across three main levels. First, the Board of Governors adopts the foundational instruments of the Bank, such as the By-Laws, Rules of Procedure, Codes of Conduct, and Rules for the Election of the President, establishing ethical and procedural standards (AIIB, s/f). The Board of Directors manages operational and financial policies through policies, strategies, and staff regulations, while delegating implementation to the President. The president, as chief of staff and legal representative, issues Directives, Staff Rules, and Guidelines to manage daily operations and coordinate management committees. To ensure compliance and accountability, the Bank maintains robust regulatory and redress mechanisms, including the Audit and Risk Committee, Ethics

Office, Internal Audit Office, and the Complaints-resolution, Evaluation and Integrity Unit (CEIU), alongside arbitration and project-related grievance systems (AIIB, s/f).

However, as the Bank's portfolio has expanded, concerns have grown about the long-term financial sustainability of AIIB-financed projects and the potential for debt dependency among borrowing nations. Several member states, especially in South and Southeast Asia, have relied on successive loans to fund large-scale infrastructure projects that do not always generate immediate economic returns. According to Kavvadia (2025), the AIIB's ability to sustain such operations is limited by its heavy reliance on international capital markets and investors' confidence, as its borrowing capacity ultimately determines how much it can lend.

This dependency creates a structural imbalance between the Bank's political ambitions and its financial capacity, leaving borrower nations increasingly exposed to debt risks if project revenues fail to materialize. Moreover, since AIIB loans are largely market based rather than concessional, the fiscal burden on developing economies may increase over time, reinforcing concerns about debt vulnerability, fiscal transparency, and national economic sovereignty within the AIIB framework (Kavvadia, 2025).

Consequently, this committee seeks to explore the risks of successive borrowing, its impact on the economic sovereignty of member states, and how the AIIB can strengthen its lending policies to promote sustainable and responsible financing. Delegates will examine strategies to ensure that the Bank's development objectives, building modern infrastructure, fostering regional connectivity, and supporting sustainable growth, are pursued in ways that balance development goals with long-term financial stability.

3. Introduction to the Topic

Debt dependency refers to a situation in which a country continuously relies on borrowing to finance development projects, often at the cost of long-term financial independence. It can be analyzed through key economic indicators that show how dependent a country is on external financing and whether such dependence is sustainable (Chaudhary & Anwar, 2000). Common measures include the debt-to-GDP ratio, the debt service-to-GDP ratio, and the ratio of export earnings to external debt. These indicators reflect both a country's ability to meet its financial obligations and its capacity to generate foreign exchange for external payments.

When debt grows faster than GDP, the financial burden becomes increasingly difficult to manage, creating risks of long-term unsustainability. Debt dependency, therefore, is not only about the amount of external debt but also about the economic vulnerability that emerges when a country's development relies too heavily on foreign loans (Chaudhary & Anwar, 2000).

In many developing economies, this has led to a cycle of successive borrowing, where new loans are taken to repay existing ones. According to the International Debt Report 2024 by the World Bank, the international financial system is facing a critical challenge: external debt among low- and middle-income countries reached a record US$8.8 trillion in 2023. Rising global interest rates, currency depreciation, and the withdrawal of private creditors have deepened the debt crisis, forcing many governments to divert essential resources from sectors such as health and education. The report calls for greater debt transparency, stronger international cooperation, and relief mechanisms to prevent the crisis from worsening in the world's poorest nations (World Bank, 2024).

The World Bank (2024) also warns that high levels of debt can undermine economic sovereignty, as debtor countries become more vulnerable to creditor influence and lose flexibility in fiscal policy. Debt dependency thus becomes not only a financial issue but also a governance challenge, shaping how countries manage public spending and negotiate with international institutions.

In this context, the Asian Infrastructure Investment Bank (AIIB) has recognized the growing debt vulnerability among its less developed members (LDMs), many of which face limited fiscal capacity and high borrowing costs. To address this, the AIIB created the Special Fund Window (SFW), a mechanism that makes loans more affordable by subsidizing interest rates for eligible members—mainly those classified as *IDA-only countries* (AIIB, 2022). Through this initiative, countries such as Bangladesh, Cambodia, the Kyrgyz Republic, and the Maldives—all identified as having high or moderate debt risk—can access infrastructure financing under more sustainable and equitable conditions (AIIB, 2022).

However, as the AIIB continues to expand its project portfolio, several borrowing members still face growing debt burdens from large-scale projects that may not yet yield sufficient economic returns. Scholars such as Kavvadia (2025) and Vazquez and Chin (2023) warn that without comprehensive debt sustainability assessments and stronger coordination among multilateral lenders, the cycle of dependency may persist. While initiatives like the SFW mitigate short-term financial pressure, they also underscore the continued reliance of low-income members on multilateral borrowing to sustain growth and recovery efforts, especially in the post-pandemic era.

Ultimately, debt dependency within AIIB-financed projects raises critical questions about sustainable development, fiscal responsibility, and the balance between growth and sovereignty. For the purposes of this committee, understanding the causes, risks, and potential solutions to successive borrowing will be key to proposing policies that align with the Bank's mandate of promoting sustainable infrastructure development while safeguarding long-term financial stability (Vazquez and Chin, 2023).

4. Historical Background

In the 1950s, development was framed within the modernization paradigm, which equated progress with capital accumulation, industrialization, and GDP growth, an approach legitimized by international institutions such as the World Bank. This economic perspective regarded human beings primarily as productive factors and measured development mainly through per capita income. Japan's postwar recovery offers a clear example: during the 1950s and 1960s, its economic resurgence was largely supported by substantial World Bank loans. Among the most notable projects financed were the Tokaido Shinkansen and the Tomei Expressway, both of which played a decisive role in fueling Japan's rapid economic growth.

However, in the 1960s, Dependency Theory challenged these assumptions by demonstrating how integration into the global economy often created hierarchical center–periphery relations of subordination (Cunego & San Juan, 2024). These insights are essential to understanding the Asian experience, where external financing and infrastructure projects promoted by multilateral banks reproduced patterns of indebtedness and dependency that shaped the trajectories of several countries in the region.

As Asian economies experienced rapid growth throughout the 1990s and 2000s, their infrastructure financing shifted from purely public spending toward increasing private-sector participation. However, the regional system remains heavily reliant on debt-based instruments, with 70–80 percent of project financing sourced from bank loans and only a minor share from equity or infrastructure funds (Kitano, 2015).

Project finance became the dominant model, yet its long-term nature and risk exposure limited private investor participation, particularly in early "greenfield" stages. Public financial institutions such as the Asian Development Bank (ADB), the World Bank, and national agencies like Japan's JBIC stepped in to provide guarantees and co-financing, but these mechanisms covered only a fraction of Asia's estimated USD 8.5 trillion infrastructure needs for 2010–2020 (Kitano, 2015).

This structural imbalance between debt and equity laid the foundation for growing debt dependency among developing Asian economies, a vulnerability that later motivated the creation of the Asian Infrastructure Investment Bank in 2015, intended to offer new financing channels while promoting sustainable and less debt-intensive infrastructure development (Kitano, 2015).

According to Weiss (2017), the establishment of the Asian Infrastructure Investment Bank (AIIB) reflects China's strategic shift in foreign and economic policy under President Xi Jinping, who has sought to expand the country's influence beyond its borders since taking

office in 2013. Xi has emphasized an ambitious vision of building a "community of common destiny," strengthening economic, political, and security ties across Asia and beyond. Central to this vision is the "One Belt, One Road" (OBOR) initiative, designed to enhance trade and connectivity through large-scale infrastructure projects across Eurasia, the South Pacific, and Africa (Weiss, 2017).

The AIIB, alongside mechanisms like the Silk Road Fund and the New Development Bank, serves as a key financial pillar supporting OBOR, enabling China to shape regional economic integration. Consequently, the AIIB not only finances development but also consolidates China's position as the central hub of regional infrastructure and trade networks (Weiss, 2017).Today, many Asian nations are undergoing similar economic expansion, yet sustaining this growth will require continued infrastructure development. As a result, the capacity of these countries to secure funding effectively and efficiently has become a critical issue.

The establishment of the Asian Infrastructure Investment Bank (AIIB) embodies both a political and regional strategy aimed at reshaping economic governance in Asia. According to Wang (2018), the AIIB's membership patterns reveal that less democratic and underrepresented countries in existing institutions, such as the Asian Development Bank, were more inclined to join this China-led initiative. This trend underscores how Beijing leveraged institutional design to attract states seeking alternatives to Western-dominated financial frameworks, thereby reinforcing its political influence in the region.

Similarly, Yuliantoro and Dinarto (2019) argue that the AIIB was created not only to address Asia's infrastructure financing gap but also to challenge the economic dominance of the United States and Japan. Through the AIIB, China seeks to consolidate its status as a global power and reshape regional economic relations, signaling a broader rebalancing of international political and financial influence in favor of Beijing.

The case of Sri Lanka's Hambantota Port illustrates how debt dependency can emerge when large infrastructure projects are financed without sufficient economic returns. According to Gangte (2020), Sri Lanka's debt crisis was not the result of deliberate "debt-trap diplomacy" by China but of long-standing macroeconomic weaknesses, such as twin fiscal and trade deficits and reliance on successive external borrowing. The government financed the port through Chinese loans, but when the project failed to generate revenue, it resorted to leasing the port in 2017 to raise foreign reserves and meet debt repayments (Gangte, 2020).

This case illustrates how weak fiscal management and excessive reliance on external credit can increase debt vulnerability, even under concessional loan terms. The Hambantota experience offers an important lesson: sustainable financing must go hand

in hand with transparent governance and careful project assessment to avoid cycles of successive borrowing and long-term dependency. Moreover, this historical evolution underscores the main challenge facing the committee, ensuring that debt-financed development supports national growth while preserving financial stability and economic sovereignty.

5. Statement of the Problem

Economic Dimension

The economic dimension of debt dependency within AIIB-financed projects reflects a structural problem of persistent borrowing cycles that undermine fiscal sustainability. Debt dependency occurs when countries rely on new loans not for productive investment, but to repay previous debts, creating a condition of successive borrowing. This pattern limits fiscal autonomy and increases vulnerability to external shocks. As Islamaj and Samano (2022) explain, many East Asia and Pacific economies have experienced sustained primary deficits and rising debt levels since the global financial crisis. The COVID-19 pandemic intensified these trends, leading to repeated borrowing that weakens fiscal resilience and raises long-term debt risks . If not controlled, this process can trigger credit downgrades, capital flight, and a growing dependence on foreign financing, turning debt into a permanent constraint rather than a tool for development (Islamaj and Samano, 2022; Kavvadia, 2025).

In the East Asia and Pacific region, these debt dynamics are clear in countries such as Laos, the Philippines, and Thailand, where public debt ratios grew sharply between 2019 and 2022 (Islamaj & Samano, 2022) . In Laos, for example, the debt-to-GDP ratio rose by more than 33 percentage points, and interest payments doubled after the pandemic, showing a cycle of borrowing to meet existing obligations rather than to expand productive capacity (Barney, et. al, 2025). Similarly, in the Philippines, slower economic growth and fiscal deficits required new borrowing despite low interest rates. These cases highlight how debt dependency and successive borrowing can emerge even when loans are concessional, emphasizing the need for institutions like the AIIB to integrate debt sustainability assessments into project design to prevent reinforcing structural dependence (Islamaj & Samano, 2022)

Political Dimension

The political effects of debt dependency in AIIB-financed projects relate to national sovereignty, policy freedom, and government accountability. When a country's external debt increases, its government often loses leverage in loan negotiations and has less control over budgetary priorities. Many states must keep borrowing to service past obligations or maintain short-term stability. This reflects what Bradshaw and Huang

(1991) described as “one of the strongest forms of dependency,” where poorer countries must follow external economic and political rules even at the cost of domestic unrest (p. 325). In the case of the AIIB, such pressures can limit a government’s policy autonomy while it seeks to preserve stable relations with creditors.

These political constraints are not theoretical. They are visible in several Asian economies where external borrowing has become central to domestic debates. In Bangladesh, opposition parties argue that rising debt reflects a form of external control, linked to growing engagement with the AIIB and China’s Belt and Road Initiative (BRI). Rahman et al. (2025) find that Bangladesh’s foreign debt has expanded rapidly as the country shifted from low-interest World Bank loans to more expensive credit from China, India, and Russia, often directed toward large infrastructure projects. They also identify problems such as weak management, corruption, and cost overruns, which increase repayment difficulties. Combined with higher interest rates and currency depreciation, these factors have fueled public debate and mistrust regarding the government’s handling of foreign contracts. As a result, debt has evolved into both an economic and a political issue, challenging government legitimacy and transparency.

Gu (2017) notes that China holds about 26 percent of AIIB voting power, granting it significant influence in strategic decisions. Although the Bank was founded as a multilateral institution, many member states perceive this concentration of power as asymmetrical. The overlap between AIIB lending and China’s broader Belt and Road agenda further blurs the line between development assistance and foreign policy. Moreover, the AIIB’s non-resident board structure allows the management to act swiftly but reduces direct parliamentary and public oversight. For borrowing countries, this combination may heighten financial dependence and diminish transparency. In the long term, the AIIB risks reproducing some of the same governance asymmetries that characterized the Bretton Woods institutions (Gu, 2017; Bradshaw and Huang, 1991).

Also, the AIIB’s expansion into Africa and its plans in Latin America illustrate its growing geopolitical role beyond Asia (Kavvadia, 2025). This move positions the bank in competition with other regional and global lenders, reflecting a strategic attempt to increase influence in developing regions. The AIIB’s financial capacity is limited compared to the vast infrastructure needs, meaning its political and economic leverage over borrowing countries is constrained (Kavvadia, 2025). Nevertheless, by engaging in these regions, the AIIB contributes to shaping regional dependencies and alliances, reinforcing China’s presence in global infrastructure financing even if its actual financial impact remains modest (Kavvadia, 2025).

6. Key Terms & Definitions

a. Debt Dependency

A structural condition in which a country's fiscal and development strategies rely excessively on external borrowing to sustain growth. It often reflects limited domestic revenue generation and structural trade imbalances that force governments to finance public investment through recurrent loans (Chaudary & Anwar, 2015).

b. Successive Borrowing

The process of contracting new loans primarily to service existing debt. This cycle perpetuates dependency, undermines fiscal sustainability, and exposes countries to external shocks and conditionalities.

c. Multilateral Development Banks (MDBs)

Multilateral development banks, or MDBs, are supranational institutions set up by sovereign states, which are their shareholders. Their remits reflect the development aid and cooperation policies established by these states. They have the common task of fostering economic and social progress in developing countries by financing projects, supporting investment and generating capital for the benefit of all global citizens (EIB, s/f). Examples include the World Bank, the Asian Development Bank (ADB), and the Asian Infrastructure Investment Bank (AIIB).

d. Sustainable Financing

Financing mechanisms designed to support economic development while minimizing debt risks and environmental harm, often integrating social, governance, and transparency standards (AIIB, 2022).

e. Special Fund Window (SFW)

The Special Fund Window (SFW) is a concessional financing mechanism within the Asian Infrastructure Investment Bank (AIIB) designed to support its less developed members by providing interest rate subsidies and extended repayment terms. As noted by the AIIB (2022), the SFW responds to requests from the Board of Directors and member countries to better assist low-income members, expanding a successful pilot program to fill gaps in the Bank's financial offerings and reduce debt vulnerability among its most economically constrained members.

7. Past Actions

Although the Asian Infrastructure Investment Bank (AIIB) was created to reduce financing gaps rather than to address debt dependency directly, several institutional and operational actions have influenced how the Bank interacts with the debt issue. According to Kavvadia (2025), these measures show both progress and structural limitations.

a. Institutional Design and Capitalization

The AIIB was established with USD 100 billion in authorized capital, providing an initial buffer to support independent lending capacity. AIIB's corporate strategy focuses on green financing, with a commitment to allocate more than 50% of its yearly approved projects to climate-related investments until 2030 (AIIB, s/f). Its main initiatives include partnerships with the Global Energy Alliance for People and Planet (GEAPP), the Energy Transition Accelerator Financing (ETAF) platform, and collaborations with organizations such as ASEAN, UNDP, UNIDO, and the Gates Foundation (AIIB, s/f).

However, as Kavvadia (2025) notes, only about 20 % of the capital is paid in, forcing the Bank to rely heavily on borrowing from global capital markets. This structure was meant to ensure operational autonomy but has, in practice, made the AIIB institutionally debt-dependent on investor confidence.

b. Market-Based Lending and Co-Financing

The AIIB promotes market-rate, non-concessional loans and collaborates with other development banks such as the World Bank, ADB, and EIB to share project risks. In 2024, AIIB joined nine other multilateral development banks to launch the Global Collaborative Co-financing Platform, a digital marketplace streamlining project co-financing, enhancing collaboration, and mobilizing additional resources to increase efficiency and impact in development finance (Lingxiao, 2024). These partnerships aim to mobilize private capital and reduce the direct debt burden on the AIIB itself. Yet, Kavvadia (2025) highlights that such co-financing often shifts the debt load to borrowing countries, who must secure additional loans to cover full project costs.

c. Crisis and Sustainability Initiatives

During the COVID-19 pandemic, the AIIB launched a USD 20 billion Crisis Recovery Facility, helping members finance urgent needs and liquidity pressures. The Bank also introduced a Sustainable Development Bond Framework (2021) to attract "green" investors and diversify funding sources beyond traditional debt instruments (AIIB).

The AIIB (2025) updated its strategy to guide growth until 2030. It focuses on supporting climate action, regional cooperation, and sustainable development while ensuring projects do not increase countries' debt. The Bank aims to create green, inclusive, and future-proof infrastructure that benefits both current and future generations and strengthens global partnerships for long-term progress (Lingxiao, 2025). These initiatives partially mitigate short-term financial stress but do not fundamentally alter the long-term reliance on debt financing.

8. Bloc Positions

a. **Developing Asian States Bloc (Bangladesh, Nepal, Cambodia, Laos, Pakistan, etc.)**
These states seek expanded access to concessional financing through the AIIB's Special Fund Window (SFW), aiming to accelerate infrastructure development and achieve the SDGs. They emphasize transparency, flexible repayment terms, and coordination with institutions like the World Bank (WB) and the Asian Development Bank (ADB) to avoid unsustainable debt, balancing rapid development with long-term financial stability.

b. **Developed AIIB Members Bloc (Japan, South Korea, European States, etc.)**
This bloc promotes strong governance, environmental safeguards, and debt sustainability assessments. Members aim to align AIIB projects with international standards and encourage collaboration with the WB and ADB. They act as a moderating influence, ensuring the bank remains multilateral, transparent, and socially responsible.

c. **Non-Member States Bloc (United States, other countries outside the AIIB)**
Non-members maintain a cautious stance, raising concerns about governance, transparency, and potential geopolitical influence. They emphasize the importance of accountability, coordination with existing multilateral banks, and the risks of excessive debt dependence.

d. **China**
As the AIIB's largest shareholder and founder, China emphasizes regional connectivity, South–South cooperation, and non-conditional lending. AIIB projects complement the Belt and Road Initiative (BRI), enhancing China's regional influence. While Beijing stresses multilateral governance, critics view AIIB lending as a tool for soft-power projection.

10. Case Studies

a. Sri Lanka and the Hambantota Port

The case of Sri Lanka's Hambantota Port serves as a cautionary example of debt dependency in infrastructure financing. Constructed primarily through Chinese bilateral loans, the project generated limited economic returns, leading to a severe sovereign debt crisis and eventual transfer of port control to China on a 99-year lease. While the Hambantota Port was not financed by the AIIB, it reflects the broader regional dynamics of unsustainable borrowing and debt vulnerability that the AIIB aims to mitigate through its lending framework (Gangte, 2020).

Sri Lanka's experience underscores the importance of rigorous feasibility assessments, transparent financial governance, and macro-prudential policies in infrastructure investment. The so-called *"debt-trap diplomacy"* narrative surrounding Hambantota illustrates how successive borrowing without adequate returns can constrain economic sovereignty. For developing economies, particularly small South Asian states, this case highlights the necessity of balancing infrastructure development with fiscal sustainability.

Moreover, as Sri Lanka aspires to transition from a low- to a middle-income economy, the episode exemplifies the challenges of the "middle-income trap." Effective public finance management, combined with responsible lending frameworks such as those promoted by the AIIB, is crucial for achieving sustainable growth and avoiding cycles of debt dependency (Gangte, 2020).

b. Bangladesh

Bangladesh has actively engaged with the AIIB through projects such as the *Natural Gas Infrastructure and Efficiency Improvement Project*, benefiting from concessional financing under the Special Funds Window (SFW) (AIIB, 2023). These initiatives have supported the country's infrastructure development while maintaining relatively favorable lending terms. However, Bangladesh's rising debt-to-GDP ratio highlights growing tensions between development financing needs and long-term debt sustainability.

Although the country's external debt levels remain within a manageable range, increasing reliance on foreign loans, particularly from China, raises concerns about potential debt dependency. As AIIB, and China-funded projects mature, the risk of successive borrowing could emerge if projected economic returns fail to materialize. Despite government efforts to diversify funding sources and

retain sovereignty over strategic assets, China's expanding financial footprint is evident (Rahman, 2024).

Historically, Bangladesh maintained a moderate external debt risk profile, as assessed by the World Bank and IMF. Yet, recent developments indicate a shift towards greater vulnerability. Factors contributing to this include accelerated borrowing to finance public and publicly guaranteed projects, higher interest rates following Bangladesh's middle-income status graduation, weak debt management, corruption, and cost overruns in several foreign-funded projects (Rahman, et.al, 2025).

c. Pakistan

As one of the major borrowing members of the AIIB and an active participant in China's Belt and Road Initiative (BRI), Pakistan has relied heavily on external financing to address its infrastructure gaps, particularly through energy and transport projects (Arsalan, 2025). While these investments have contributed to development goals, they have simultaneously deepened the country's external debt dependency, raising concerns about long-term fiscal sustainability. In response, the AIIB has emphasized stricter project evaluation standards and greater co-financing safeguards to ensure debt sustainability in future lending.

According to Arsalan (2025), Economic assessments show that Pakistan's debt challenges predate the launch of the China–Pakistan Economic Corridor (CPEC). Even before its implementation, the country maintained a high debt-to-GDP ratio and faced persistent fiscal imbalances. Chronic budget deficits, coupled with weak revenue collection and limited expenditure control, have contributed to the steady accumulation of sovereign debt, making Pakistan increasingly dependent on external borrowing to sustain its financial commitments. (Arsalan, 2025).

d. Laos

According to Barney et. al (2025), Laos is currently undergoing a profound debt crisis that exemplifies the challenges of debt dependency and successive borrowing among developing economies. Since 2022, the Lao kip has lost nearly half its value against the US dollar, intensifying inflation and eroding household purchasing power. This macroeconomic instability has translated into rising food insecurity and growing reliance on cross-border labor migration. Public and publicly guaranteed (PPG) debt is estimated to exceed 100% of GDP, a level sustained primarily through repeated debt deferrals from China—Laos' single largest creditor. Despite avoiding formal default, the country allocated over half

of its fiscal revenues to debt servicing in 2023, severely constraining resources for essential services such as health and education (Barney, Rajah & Cooray, 2025).

During the 2010s, Laos' main external lenders were China's policy banks, particularly the Export-Import Bank of China (Exim Bank) and, to a lesser extent, the China Development Bank (CDB). Much of this borrowing was directed toward state-owned enterprises, especially Électricité du Laos (EDL), which alone accounted for over US$6 billion in energy-sector debt exposure (Barney, et. al, 2025). The accumulation of such liabilities, often linked to infrastructure and energy projects under the Belt and Road Initiative (BRI), illustrates the risks of large-scale borrowing without immediate economic returns.

Laos' fiscal trajectory further reflects the dangers of excessive borrowing amid weak revenue collection. Budget deficits widened to nearly 5% of GDP by the mid-2010s as government revenues declined from 20% of GDP in 2013 to 15.4% by 2019, largely due to tax exemptions and weak compliance. To bridge this gap, Laos increasingly turned to international bondholders and commercial banks, adding over US$2 billion in new debt. By 2019, concessional debt had become a minority share of total public debt, reversing the composition seen in 2004 (Barney, et.al, 2025)

11. QARMAs

For delegates who have not previously participated in a Model United Nations debate, the term "QARMAs" refers to "Questions a Resolution Must Answer." QARMAs are the questions presented by a study guide that must be answered in the resolution adopted by the committee, either through preambulatory clauses recognizing guiding principles or operative clauses offering concrete solutions to each QARMA.

1. How can the AIIB help countries finance infrastructure projects without creating excessive debt dependency?

2. What conditions should the AIIB include before approving loans for specific projects to ensure sustainability?

3. How can it be ensured that AIIB-financed projects are economically viable and socially beneficial?

4. How can countries report transparently on debt levels and obligations from AIIB-financed projects?

5. What measures can prevent countries from needing successive borrowing to repay previous AIIB loans?

12. Guidelines for the Official Position Paper

The purpose of this document is to provide an overview of each delegation's stance, possible solutions, and role within the committee. Delegates are encouraged to follow a structured format when writing their papers, as this will facilitate the writing process and improve readability for the Director. Furthermore, to be eligible for an award, each delegate must submit a Position Paper before the deadline.

In the first paragraph, you should present your country's position on the topic, clearly demonstrating an understanding of your country's policy. In the second paragraph, you may mention the main previous actions taken by the UN regarding the issue. You should analyze the impact these actions have had on your country, explaining why they were successful or not. You may also include actions taken by other international organizations and by your own country on the matter.

In the final paragraph —the most important one— you should present your proposals to address the problem. Each proposal must be supported by detailed information, covering the who, what, when, where, and how of its implementation.

Regarding formatting, the paper should be no longer than one page, with 1.15 line spacing, Times New Roman font, size 11, and 2.5 cm margins on all sides. Remember that all references used must be properly cited. The paper should be submitted to: positionpaperspucpmun@gmail.com.

13. Bibliography

Arsalan. (2025). CPEC and Pakistan's Debt Dynamics: Myth or Reality of a Debt Trap. Journal of Development and Social Sciences, 6(1), 242–257. https://doi.org/10.47205/jdss.2025(6-I)22

Asian Infrastructure Investment Bank (AIIB). (2021). AIIB Sustainable Development Bonds 2021 Impact Report - AIIB. https://www.aiib.org/en/news-events/impact-reports/sustainability-bond-impact/2021/index.html

Asian Infrastructure Investment Bank (AIIB). (2022). Paper on the Decision to Establish a Special Fund Window for Less Developed Members. En *Asian Infrastructure Investment Bank (AIIB)*. https://www.aiib.org/en/_common/_download/AIIB-Paper-on-Special-Fund-Window-for-Less-Developed-Members.pdf

Asian Infrastructure Investment Bank (AIIB). (s. f.). Bangladesh: Natural Gas Infrastructure and Efficiency Improvement - Projects - AIIB. Asian Infrastructure Investment Bank. https://www.aiib.org/en/projects/details/2017/approved/Bangladesh-Natural-Gas-Infrastructure-and-Efficiency-Improvement.html

Asian Infrastructure Investment Bank (AIIB). (s. f.-c). Resource mobilization. https://www.aiib.org/en/how-we-work/partnerships/resource-mobilization/index.html?utm_source=chatgpt.com

Asian Infrastructure Investment Bank (AIIB). (s. f.-b). *Governance Overview - AIIB Organizational Structure*. Asian Infrastructure Investment Bank. https://www.aiib.org/en/about-aiib/governance/index.html

Barney, K., Rajah, R., & Cooray, M. (2025). Trapped in debt: China's role in Laos' economic crisis. Lowy Institute. https://www.lowyinstitute.org/publications/trapped-debt-china-s-role-laos-economic-crisis

Bradshaw, Y. and Huang, J. (1991) Intensifying Global Dependency: Foreign Debt, Structural Adjustment, and Third World Underdevelopment. The Sociological Quarterly, 32, 321-342. https://doi.org/10.1111/j.1533-8525.1991.tb00162.x

Cunego, A., & Ruiz Sanjuán, S. (2014). Introducción Al Sistema De Cooperación Internacional Al Desarrollo. http://www.musol.org/images/stories/archivos/2015/MemoriaSistemadecooperacinISBN.pdf

Chaudhary, M. A., & Anwar, S. (2000). Foreign Debt, Dependency, and Economic Growth in South Asia. The Pakistan Development Review, 39(4). https://ideas.repec.org/a/pid/journl/v39y2000i4p551-570.html

European Investment Bank (EIB). (s. f.). Multilateral development banks. European Investment Bank. https://www.eib.org/en/about/partners/development-banks/index

Gu, B. (2017). Chinese Multilateralism in the AIIB. Journal Of International Economic Law, 20(1), 137-158. https://doi.org/10.1093/jiel/jgx006

Islamaj, E., & Samano, A. (2022). Drivers of Public Debt in East Asia and Pacific Economies. *Research & Policy Briefs*. https://hdl.handle.net/10986/38422

Kavvadia, H. (2025). A Resource-Based View of the Asian Infrastructure Investment Bank (AIIB) - Review of Economics and Finance. Review Of Economics And Finance, 23, 135-144. https://refpress.org/ref-vol23-a13/

Kitano, Y. (2015). Infrastructure Financing in Asia – Current Situation and Future Outlook. Nomura Journal Of Capital Markets, 6(4). https://papers.ssrn.com/sol3/Delivery.cfm/SSRN_ID2627031_code340205.pdf?abstractid=2627031&mirid=1

Lingxiao, H. (2024). 10 MDBs jointly launch Global Co-financing Platform - News - AIIB (Asian Infrastructure Investment Bank (AIIB), Ed.). Asian Infrastructure Investment Bank (AIIB). https://www.aiib.org/en/news-events/news/2024/10-MDBs-Jointly-Launch-Global-Co-financing-Platform.html?utm_source=chatgpt.com

Lingxiao, H. (2025). *AIIB Unveils Updated Growth-Focused Strategy to Tackle Global Challenges* (Asian Infrastructure Investment (AIIB), Ed.). https://www.aiib.org/en/news-events/news/2025/aiib-unveils-updated-growth-focused-strategy-tackle-global-challenges.html

Rahman, M. (2024). China's Investment in Bangladesh: Backdrop of Debt Trap Diplomacy. International Journal of Applied Research and Sustainable Sciences, 2(10), 841–854. https://doi.org/10.59890/ijarss.v2i10.2637

Rahman, M., Al Rahman, M., & Arpita, A. T. (2025). Bangladesh's Emergent External Borrowing Scenario: Reasons for Concern and Mitigating Actions. Journal of Bangladesh Studies, 27(1), 32-58. https://doi.org/10.1163/27715086-20250005

Vazquez, K. C., & Chin, G. T. (2019). The AIIB and Sustainable Infrastructure: A Hybrid Layered Approach. Global Policy, 10(4), 593-603. https://doi.org/10.1111/1758-5899.12771

Wang, Y. (2018). The Political Economy of Joining the AIIB. The Chinese Journal Of International Politics, 11(2), 105-130. https://doi.org/10.1093/cjip/poy006

Weiss, M. (2017). Asian Infrastructure Investment Bank (AIIB). En UNT Digital Library. Congressional Research Service. https://digital.library.unt.edu/ark:/67531/metadc958727/

World Bank. (2024). International Debt Report 2024. En *Open Knowlege*. https://openknowledge.worldbank.org/entities/publication/f1700aa0-cc73-42b7-8ceb-630c5528a574

Yuliantoro, N. R., & Dinarto, D. (2018). Between Revisionist and Status Quo: The Case of China's Leadership in the AIIB. Jurnal Hubungan Internasional, 7(2). https://doi.org/10.18196/hi.72131

CERRANDO BRECHAS

PUCP MUN 2025