

The New Multilateral Development Banks: Promises and Potential Problems

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Emergence of New MDBs

- New Development Bank
- Asian Infrastructure Investment Bank
- South Asian Association on Regional Cooperation Development Fund
- Shanghai Cooperation Organization Development Bank
- ...

Threatening the Existing Order?



Wakeup-world.com



Outsiderclub.com

Alarm in the US

- Larry Summers: “the moment the United States lost its role as the underwriter of the global economic system”



AP photo 1944



China.org.cn 2014

Questions

- How do the new MDBs fit in the infrastructure landscape?
- Should we worry?
- What should we worry about?

Limitations of Traditional MDBs

- Infrastructure financing gap
 - Need in developing countries: \$2 trillion/year
 - Actual investment: less than \$1 trillion/year
 - Gap: more than \$1 trillion/year
- Limited capacity of traditional MDBs
 - Lack of emerging economy participation

Institution	G7 member shares	BRICS member shares	Subscribed capital (2013)	Annual flow (2012)
World Bank	43.71%	13.87%	\$223 billion	\$24.5 billion
ADB	45%	12.8%	\$162.8 billion	\$8.7 billion

Source: H. Riesen 2015

Promise of the New MDBs (1)

- Helping to fill the gap
 - Assuming a credit leverage of 2.4 (H. Riesen 2015), NDB and AIIB (\$100 billion) could make combined annual lending of \$24 billion on total stock of \$240 billion
 - Comparable to World Bank lending; 1/3 of total lending by established MDBs
- Stimulating competition
 - G20: Global Infrastructure Initiative/Hub
 - World Bank: increased funding and plan to further increase funding; Global Infrastructure Facility,
 - Infrastructure programs by regional MDBs

Promise of the New MDBs (2)

- New form of financing
 - Resource financed infrastructure (actively practiced by China in recent years)
- Conditions for lending
 - Away from free-market principles (privatization, deregulation...);
 - “No meddling with internal affairs”
- Procedure of lending
 - Smaller and flatter bureaucracy, shorter process of approval

Reform v. Revolution

- Shared consensus
 - Infrastructure critical for global economic growth and integration
 - Importance of good governance
- Plans for joint projects between new and old MDBs



adb.org

The China Factor

- New activism in China's financial statecraft
 - New MDBs, Silk Road Fund, Infrastructure Fund for ASEAN...
- Overthrowing the existing order?
 - President Obama: “If we don't write the rules, China will write the rules out in that region”

China's "Two-level Game"

- Diplomatic ambition
 - Reform traditional financial institutions
 - Increase China's regional influence
- Domestic economic and political considerations
 - Access of energy and raw materials for domestic industries
 - Export of overcapacity by domestic industries
 - Better returns on financial assets
 - Developing inland China
- Room for cooperation (absolute v. relative gains)

Potential Problems for MDBs: Old and New

- Financial sustainability
 - Public private partnership
 - Financialization of infrastructure
- Environmental and social sustainability
 - Mega projects
 - Aggressive use of project preparation facilities
 - China's own mixed record

Summary

- How do the new MDBs fit in the infrastructure landscape?
 - Filling a gap
 - Stimulating competition
 - Reform potential
- Should we worry?
 - The New MDBs are likely to work with rather than replace traditional MDBs
 - China's limited power ambition and focus on domestic needs leave room for cooperation
- What should we worry about?
 - Financial, environmental and social impact of the new rush to infrastructure investment