Multilateral Development Banks: Contribution to Sustainable Development

Functional Changes in China’s Participation in the Multilateral Development Banks: from Borrower to Creditor Status

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Abstract

Multilateral development banks (MDBs) play an important role in world economic processes and global economic governance. Since the establishment of the first multilateral development bank — the International Bank for Reconstruction and Development (IBRD) — MDBs have emerged in three waves, each time as a response to the major changes in the world arena. The creation of the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) represents the third and latest wave of MDBs. These new development banks have arisen as a consequence of an historic shift in global economic power from developed countries to emerging economies and more specifically the increase in China’s economic might. This article traces the evolution of China’s participation in MDBs, characterizes various forms of China’s engagement with MDBs in specific periods of history, and explains Beijing’s motivation in establishing new MDBs. During almost 40 years of interaction with the multilateral development banks, China has made a great leap forward from large-borrower to creditor status, from ordinary member to the initiator and creator of new MDBs under its auspices. This article identifies the scale, composition and dynamic of MDBs’ assistance to China. It points out that despite its eye-catching economic achievements, China remains one of the largest borrowers from MDBs. Yet, in the process of China’s participation in MDBs there have been two turning points: in 2004–2005 when China became a creditor, and during the 2008 global financial crisis when China set a course to promote the reform of global governance system and the creation of new China-dominated financial bodies. The creation of new financial institutions is evaluated in the article as indicating Beijing’s foreign policy ambitions to assume a leadership role in the global economic architecture, while the fact that China is acting both as a creditor and a borrower in MDBs reflects the incomplete nature of China’s modernization efforts and its elevation to the status of a great power with global outreach. Overall, the establishment of new multilateral development banks is evaluated in the article as effective in promoting Beijing’s efforts to solidify its position in the world economy and the international system.

Key words: global governance; multilateral development banks (MDBs); China; New Development Bank (NDB); Asian Infrastructure Investment Bank (AIIB); foreign assistance; World Bank; Asian Development Bank; infrastructure investments; BRICS

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Introduction

Multilateral development banks (MDBs) — the financial institutions established by more than two countries to provide financial and technical assistance, as well as expertise to developing countries to promote economic and social development — play a very important role in the contemporary international economic system and world economic processes. Alongside the World Bank (WB) — until recently the only global multilateral development bank — there are now more than 250 multilateral development agencies, including over twenty-five regional and sub-regional multilateral development banks. Declaratively working to promote poverty eradication, create vital infrastructure for developing countries’ sustainable development and provide assistance for social and environmental projects, multilateral development banks are at the same time capable of setting the direction of recipient countries’ development by providing policy-based loans and by formulating investment priorities. By assuming a dominant position in MDBs, a large country attains capacity to pursue its expansive national interests by means of exerting influence over developing countries. This perfectly explains why great powers are so interested in exercising control over MDBs.

In the aftermath of the 2008 global financial crisis which brought to light the weaknesses of the existing global economic governance system, a new trend emerged: almost simultaneously the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) were established, and negotiations on the creation of the Shanghai Cooperation Organization (SCO) development bank began. Initiated to improve the efficiency of global economic governance and to complement existing MDBs, new financial institutions have reflected developing countries’ dissatisfaction over their modest role in global economic governance. That was especially true for China which, after the 2008 global financial crisis, re-assessed its posture in the world arena and set a course to enhance its role in global governance, including by means of creating new MDBs. From an ordinary member of MDBs, China has transformed into the initiator and creator of new financial institutions dominated and controlled not by western countries, but instead by developing economies.

The transformation of China’s engagement with MDBs can also be seen from another angle — since the mid-2000s China has begun to make donations to MDBs. Yet, even while offering donations to MDBs and initiating the establishment of new financial institutions, China nevertheless remains a large borrower from the World Bank and

2 Policy-based loans can include financing in exchange for consent by the borrower country’s government that it will, for instance, undertake privatization of state-owned enterprises, structural reforms, reforms in agricultural or energy sector, etc. [Nelson, 2015].
the Asian Development Bank (ADB), which angers some western countries. Exercising simultaneously two functions in its engagement in MDBs — that of recipient/borrower and of donor/creditor — China unveils the dual nature of its self-positioning in the world arena and the incomplete character of its transformation into a great power with global outreach. On the one hand, China acts as a strong although still developing country which is ready to selectively shoulder international responsibility when it corresponds with Chinese national interests. On the other hand, China positions itself as a rapidly growing country which expects to play at least the same role in global governance as the leading world powers.

This study aims to give an historical overview of the creation of MDBs and to trace the evolution of China’s engagement with MDBs from nonparticipation, joining them as a large borrower country, then becoming both a recipient and donor country, and finally becoming an initiator and creator of new MDBs. A special emphasis is put on explaining various forms of China’s engagement with MDBs at specific point in time, including the most recent period.

The Multilateral Development Banks: Three Waves of Their Establishment

The oldest and largest MDB is the World Bank Group that comprises three financial structures which provide loans and grants to developing countries: the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC) and the International Development Association (IDA). The IBRD was established at the 1944 Bretton Woods Conference and was initially aimed at promoting economic development in European countries that had suffered during World War II. It is now functioning as a global financial institution comprising 189 members and extending loans and other forms of assistance to middle-income countries and credit-worthy low-income countries. Originally focused on financing infrastructure projects, the role of the IBRD has broadened to include social projects and policy-based loans.

Since the creation of the IBRD more MDBs were established, mainly in three waves [Wang, 2016]. The first wave, caused by the decolonization process and the appearance in the world arena of many newly-independent developing and poor countries, lasted from the mid-1950s to the mid-1970s. At that time two more financial institutions within the World Bank Group were established — the International Finance Corporation (IFC) in 1956, which is focused exclusively on making loans to private firms in developing countries, and the International Development Association (IDA) in 1960, which complements the IBRD and extends grants and concessional loans (long-term loans with low or no interest) to the world’s poorest countries. In 1958 in accordance with the Treaty of Rome another large MDB was created — the European Investment Bank.

3 Such countries as Cuba, North Korea, and microstates like Andorra, Monaco and the Vatican are nonmembers.
That was the time when other regional and sub-regional MDBs were established, including the Inter-American Development Bank (1959), the Central American Bank for Economic Integration (1960), the African Development Bank (1964), the Asian Development Bank (1966), the Andean Development Corporation (1970), the Caribbean Development Bank (1970), the Islamic Development Bank (1975), the OPEC Fund for International Development (1976) and the Nordic Investment Bank (1976). Focused on promoting social and economic development in their respective regions and sub-regions, these MDBs each have unique characteristics, while also sharing features with the IBRD. The Inter-American Development Bank, the African Development Bank and the Asian Development Bank, for example, are very similar to the IBRD in their governance and operational functions. The Islamic Development Bank is distinct in the way it mobilizes financial resources — unlike the IBRD which raises most of its funds in private financial markets, the Islamic Development Bank takes deposits to this end. The Andean Development Corporation is another example of an MDB with distinctive features since it is primarily controlled by borrower countries in Latin America and the Caribbean, and in contrast to many MDBs it takes deposits and obtains loans from central banks, commercial banks and export credit agencies [Wang, 2016]. In some regional MDBs membership is restricted to a specific group of countries. For instance, only members of the Organization of Islamic Cooperation can join the Islamic Development Bank, and the European Investment Bank is for European Union members exclusively.

A second wave of MDBs took place in the beginning of the 1990s through the beginning of the 2000s, arising from the changes in Europe caused by the end of the Cold War and the collapse of communist regimes in Central and Eastern Europe, as well as the disintegration of the Soviet Union and the formation of new independent states. In 1991, to promote the transition of the former communist countries from planned to market-oriented economies, the European Bank for Reconstruction and Development was formed. This institution is unique in its focus on the private sector and on projects intended to ease the transition of the former communist countries to multiparty democracy and a free market economy. In 1997, to support economic development and regional cooperation in the Black Sea Region, the Black Sea Trade and Development Bank was created. And finally, in 2006 the Eurasian Development Bank was founded with a mission to facilitate economic growth in member states and the expansion of trade and economic ties between them as well as to further the process of integration in the region through investment activity.

The largest and the most influential MDBs are the IBRD, the IDA, the European Investment Bank, the Inter-American Development Bank and the Asian Development Bank. Each of these is controlled by western countries — either by the U.S., western European countries or Japan. That means that these countries have assumed for themselves the role of being the major vehicles of global economic governance.

A third wave of MDBs followed the 2008 global financial crisis and was triggered by the economic power shift in the international system from developed countries to
Emerging economies. Emerging economies’ dissatisfaction over their limited role in global economic governance and more specifically in traditional MDBs has resulted in the establishment of two new financial institutions – the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB). In contrast to most MDBs controlled by western countries, the NDB and the AIIB are led by developing countries, with China playing a prominent role.

**China’s Participation in MDBs**

China’s participation in MDBs can be traced back to the era of Deng Xiaoping when China launched a process of massive economic reforms and increased engagement with the outside world, a policy course that was aimed at reaching high macroeconomic indicators (first and foremost, high gross domestic product) and enhancing people’s well-being. China’s increased engagement with MDBs was in line with Beijing’s policy to incorporate itself into the existing international system, to enhance its cooperation with international organizations and to deploy multilateral diplomacy.

Engagement in MDBs has opened a window of opportunity for China to receive extensive financial and technical assistance and has become one of the decisive factors in China’s social and economic development. In close cooperation with the MDBs China has managed not only to undertake multiple infrastructure projects, but also more importantly to build the whole industry of infrastructure planning and construction by adopting MDBs’ extensive experience in this sphere from financing methods to infrastructure project management.

Soon after the 3rd Plenary Session of the 11th Central Committee of the Communist Party of China held in December 1978, where the reform and opening-up policy was initiated, China regained its seat in the World Bank (April 1980). In 1981 the IBRD and the IDA approved its first loan to China totaling $200 million for the improvement of Chinese education, including dispatching teachers and professors for overseas study, purchasing books and documents, and improving the management of universities [Zha, 2015]. From 1981 until 1989 the IBRD and the IDA collectively approved $8.6 billion in loans to China (Table 1). The World Bank has become the second-largest creditor for China behind Japan. China in turn has become one of the largest borrowers from the World Bank. China’s share in World Bank commitments increased from 6.5% in 1985 to 12.7% in 1996 [Sanford, 1997].

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4 It is worth mentioning that alongside assistance from MDBs, since 1979 China has received substantial development aid from Japan in the form of official development assistance (ODA). As of February 2016, Japan provided to China approximately 3.3164 trillion yen in loan aid, 157.2 billion yen in grant aid, and 181.7 billion yen in technical cooperation [Ministry of Foreign Affairs of Japan, 2016]. For a number of reasons, including China’s enhanced economic power and the changes in the balance of economic might between China and Japan, in 2008 Japan stopped providing China with ODA loans.

5 China was a founding member of the IBRD, but since the end of the civil war in China in 1949 until 1980, the Taiwan authorities occupied China’s seat in the IBRD and other World Bank institutions.
### Table 1. IBRD and IDA Loans 1981–2000, $ Millions

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<tr>
<td>IBRD</td>
<td>100</td>
<td>0</td>
<td>463</td>
<td>616</td>
<td>660</td>
<td>687</td>
<td>867</td>
<td>1054</td>
<td>833</td>
<td>0</td>
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<tr>
<td>IDA</td>
<td>100</td>
<td>60</td>
<td>150</td>
<td>424</td>
<td>442</td>
<td>450</td>
<td>556</td>
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<td>515</td>
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<tr>
<td>Total</td>
<td>200</td>
<td>60</td>
<td>613</td>
<td>1040</td>
<td>1102</td>
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<tr>
<td>IBRD</td>
<td>602</td>
<td>1578</td>
<td>2155</td>
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<td>2370</td>
<td>2490</td>
<td>2490</td>
<td>2323</td>
<td>1674</td>
<td>1673</td>
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<tr>
<td>IDA</td>
<td>978</td>
<td>949</td>
<td>1017</td>
<td>925</td>
<td>630</td>
<td>480</td>
<td>325</td>
<td>293</td>
<td>423</td>
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<tr>
<td>Total</td>
<td>1580</td>
<td>2527</td>
<td>3172</td>
<td>3070</td>
<td>3000</td>
<td>2970</td>
<td>2815</td>
<td>2616</td>
<td>2097</td>
<td>1673</td>
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*Source: [IMF, 2004].*

A short pause in IBRD lending to China took place in response to the Tiananmen Square incident in June 1989 when, under pressure from the U.S., a number of international financial institutions temporarily suspended assistance to China. Although the World Bank and the ADB did not have provisions in their articles of agreement to permit taking human rights conditions in the recipient country into account, these institutions stopped lending to China on that grounds of a high probability that Beijing would denounce economic liberalization and reforms. It was agreed that MDB loans would be made to China only for basic human needs. As a result, MDB lending to China fell considerably (Table 1). In 1990 the IBRD made no loans to China, while in 1991 China received only $0.6 billion from the IBRD, a sum which was twice-less than the amount loaned in 1988. In 1990 the IDA provided China with a $590 million loan for agricultural development in poor provinces, earthquake reconstruction, vocational education and afforestation.

Nevertheless, anti-Chinese sanctions did not last long. The volume of MDB lending to China increased substantially after 1992 when China became the largest World Bank borrower for the first time. In 1992 the IBRD lent more than $1.5 billion to China, which together with IDA loans accounted for $2.5 billion. From 1993 until 1999 China received more than $2 billion annually from these two financial institutions. In 1993–2002 China was the IBRD’s largest borrower and the IDA’s second-largest borrower.

In the 1980s and 1990s most IBRD lending to China was for infrastructure and industrial projects, whereas IDA assistance focused on agriculture and social development programmes. During 1985–1997, 68% of all IBRD funds lent to China were for the construction of infrastructure, 16% for industrial and mining sector, oil and gas production. Most of these projects were located in areas with rapid economic growth, mainly in urban or coastal provinces. 6% of total IBRD lending to China was for agricultural development, 3% for social programmes, 7% for environmental projects (these projects were financed from 1993–1996) and less than 1% to promote economic policy reform in China (in 1995) [Sanford, 1997].
IDA concessional loans for the most part were directed to finance agricultural development projects primarily in impoverished areas (43% of all IDA loans) and social projects including health, primary education and poverty alleviation (33%). 9% of IDA lending was for infrastructure, another 9% for environmental projects (in 1992–1996), 4% for economic policy reform and 2% for industry [Sanford, 1997].

In 1999, when China had received $10 billion in total aid from the IDA, IDA lending to China was stopped — the IDA specializes in providing assistance to the world’s poorest countries, a group to which China no longer belonged. Notably, during World Bank discussions held in the 1990s over the issue of possible reduction and termination of IDA assistance to China, it was Japan that resisted such efforts, while the U.S. was the plan’s principal sponsor. Eventually, the American stance gained the upper hand. The termination of IDA aid received a negative response from Beijing because at that time per capita gross domestic product (GDP) in China was quite low and there were still some 200 million people in China with consumption levels below a dollar per day [World Bank, 2012a].

Between 1945 and 2015 China was the third-largest borrower from the World Bank (IBRD and IDA together) behind India and Brazil.6 Up to the end of 2015 China has received $55.828 billion in loans from the World Bank ($45.882 billion from the IBRD and $9.947 billion from the IDA) [World Bank, 2015]. Despite its enhanced economic power and its newly-attained second world economy status, China continues to be the IBRD’s largest borrower. From 2013–2016, China on average received $1.8 billion annually. In 2014, China was third-largest recipient of the World Bank’s assistance (behind Brazil and India), in 2015 second-largest behind India, and in 2016 fourth-largest behind Peru, India and Kazakhstan. According to the “China 2030: Building a Modern, Harmonious, and Creative High-Income Society” report written jointly by the World Bank and the Development Research Center of the State Council, China in the next 15–20 years will probably become a high-income country [World Bank, 2012b]. This means that for the next 10–15 years China will continue to hold middle-income developing country status, thus qualifying for IBRD aid.

Alongside the World Bank, China is a large borrower from the ADB. In contrast to the World Bank Group where China until 1999 was eligible to receive loans from both its non-concessional and concessional loan windows (IBRD and IDA correspondingly), the ADB from the very beginning decided to provide only market-based non-concessional loans to China (as well as to India).

After China joined the ADB in March 1986, Beijing rapidly enhanced the volume of loans it received from the ADB from $133 million in 1987 to over $1.1 billion, the minimum sum China had been receiving in loans annually since 2003 (Table 2). China has been the second-largest borrower from the ADB. By December 2015, the ADB had approved $31.1 billion in loans for China. Among the investment projects funded by the ADB to China, transportation and telecommunication projects occupy the largest

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6 India is the largest recipient of loans from the World Bank, amounting to $104 billion, second place is occupied by Brazil ($58.8 billion).
share of 54.8%, followed by energy (13.5%), water service and other municipal engineering (13%), agriculture and natural resources (11.7%), finance (2.2%), industry and trade (2.2%) and education (1%) [Asian Development Bank, 2016].

Table 2. ADB Loans to China 1987–2015, $ Millions

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<td></td>
<td>133.3</td>
<td>236.4</td>
<td>39.7</td>
<td>50</td>
<td>496.3</td>
<td>853</td>
<td>1050</td>
<td>1167</td>
<td>1201</td>
<td>1032</td>
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<td></td>
<td>656</td>
<td>1162</td>
<td>1232</td>
<td>872.3</td>
<td>997</td>
<td>833.5</td>
<td>1488</td>
<td>1259.9</td>
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<td>1522</td>
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<td></td>
<td>1146.7</td>
<td>1526</td>
<td>1762.1</td>
<td>1320.9</td>
<td>1339.8</td>
<td>1470</td>
<td>1540</td>
<td>1490</td>
<td>1729</td>
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Source: [Asian Development Bank, 2016].

Beginning in 2005 while continuing to be the ADB’s largest borrower China started to offer donations to the ADB and other MDBs. The period from 2004–2005 was a turning point for China as it had by then accumulated immense financial resources which allowed Beijing to fully implement its “going out” strategy7 by increasing its outward investments and development aid to developing countries. For instance, in March 2005 China established the PRC Poverty Reduction and Regional Cooperation Fund as a $20 million trust fund to be managed by the Asian Development Bank – the first trust fund established by a developing-country member of the ADB. This Fund is aimed at supporting technical assistance projects and sub-regional cooperation between countries that are part of the Greater Mekong Sub-Region and Central Asia Regional Economic Cooperation. In April 2012, the Fund was replenished with another $20 million, bringing China’s total contribution to $40 million.


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7 The “Going out” strategy was declared in the late-1990s, and officially became a part of the 10th Five-Year Plan in 2001. This strategy was aimed at facilitating and supporting outward investment to create globally competitive Chinese firms, and encouraging outward investment that contributes directly to China’s development. Yet, it was not until 2004–2005 that China had accumulated extensive financial resources and was able to dramatically increase its investment around the world.

8 The Asian Development Fund is the soft-loan window of Asian Development Bank. It provides grants and concessional loans to the ADB’s poorest members.
China has also increased its donations to IDA: during the 15th, 16th, and 17th capital increases of IDA (for the periods 2008–2010, 2011–2013 and 2014–2017), China donated $30 million, $160.78 million and $300 million respectively [IDA, 2016].

Generally speaking, as China has accumulated economic might, in its interaction with MDBs it has started to enhance its role as a contributor in addition to being a recipient.9 As an investor, China joined a number of MDBs including the African Development Bank (1985), the Caribbean Development Bank (1997), the Eastern and Southern African Trade and Development Bank (2000), the East African Development Bank (2004), the Inter-American Development Bank (2008), and the European Bank for Reconstruction and Development (2016). China continues to increase its donations to MDBs. For example, China has nine times offered donations to the African Development Fund (the soft-loan window of African Development Bank), thus increasing its assistance from an initial $14.59 to $486 million [African Development Bank, 2017]. In 2014, the African Development Bank and China jointly established a $2 billion “Africa Growing Together Fund.”

China’s enhanced role as a large donor has triggered discussions over the necessity and the scale of financial assistance from MDBs to China. Those who support the termination of financial assistance from MDBs to China assume that MDBs should provide assistance to the world’s poorest countries which do not have the resources to fund development projects and cannot borrow from international capital markets. They point out that China, as the world’s second-largest economy with the largest foreign reserves in the world able to provide massive economic assistance to other developing countries both on a bilateral and multilateral levels within MDBs, should rely more on its own resources or get loans from private capital markets to fund development projects. They indicate that since the assistance China gets from MDBs is not primarily directed to poverty reduction, Beijing should stop receiving it, just like Taiwan and Korea had previously.

Proponents of MDB aid to China point out that China receives loans with market-based interest rates rather than concessional loans, and that such loans are inexpensive for MDBs and generate income to cover MDB operating costs. More importantly, MDB loans are often extended for projects for which the government might be reluctant to borrow from international capital markets, such as environmental projects or projects aimed at establishing systems of good governance. They also emphasize that China still has substantial numbers of people living in poverty. In 2017 there were over 43 million poor people in China [Zhen’min’ zhibao, 2017], which is equivalent to over half the population of Germany. The Chinese government plans to reduce by at least 10 million annually the number of people living in poverty and to eradicate poverty by 2020.

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9 Alongside with the World Bank Group and the ADB, China receives assistance from other MDBs. For example, while not being a member of the Nordic Investment Bank, since 1986 China has been receiving loans from this financial institution.
China and the Establishment of New MDBs

Following the 2008 global financial crisis that resulted in China’s reassessment of its role in the international system, Beijing has started to take efforts to establish a new level of engagement with MDBs.

First, Beijing set an objective to enhance China’s role in the World Bank to bring it more in line with China’s increased input into global economic development. Its status as the world’s second-largest economy after 2010 obviously did not correspond to the modest role that China continued to play in the World Bank, where it was only the sixth-largest shareholder. Through great efforts and in coordination with other developing countries (and specifically with the BRICS countries of Brazil, Russia, India and South Africa in addition to China), this task was partially achieved in April 2010 when the World Bank made a landmark decision to increase the voting power of emerging and developing countries at the expense of the developed ones. The voting power of China was raised by 1.65% (from 2.77 to 4.42%). Although these changes meant some enhancement of China’s role in the World Bank – China moved from the sixth-largest shareholder position to the third – China still remains underrepresented with respect to its weight in the global economy and hopes to move to the second-largest shareholder position.

Having faced resistance from the western developed countries and their rigid unwillingness to allow China to be a part of a privileged club of countries that controls the leading international financial institutions, Beijing has established a new objective – to create new MDBs that will act in the interests of, and be led by, developing countries (including China). In 2010, at the ninth SCO prime ministers meeting held in Dushanbe (Tajikistan) China proposed the founding of an SCO development bank, where according to the Chinese plan the voting share of members should be linked to GDP, meaning that China would have more say in the bank’s activities. Although China’s proposal generated some interest among the SCO members a final decision on the issue has not yet been made.

But that was just the beginning. China became extremely active in establishing another financial institution – the BRICS New Development Bank. Officially launched on India’s initiative in March 2012 during the Delhi summit, it took several years for members to discuss the idea and negotiate the basic principles of this new MDB. Among the questions that were debated were the volume of initial capital and its distribution among founding members (equal or share-based), the location of its headquarters, operational currency, governance structure, client base (BRICS members only or nonmembers as well) and so on. Looking for a dominant role in the NDB, China has insisted on a large initial capital and on a share distribution in accordance with each country’s economic might and its initial capital contribution. China also pushed for the headquarters to be in Shanghai and for the NDB to be able to lend on a global basis.

In the end, after lengthy debates and negotiations members have reached a consensus. In July 2014, at the BRICS’ sixth summit in Brazilian Fortaleza, the final documents for the creation of the New Development Bank were signed, and in July 2015
during the Ufa summit it was officially launched. The NDB was set up with an initial capital of $100 billion and an initial subscribed capital of $50 billion. Shares in initial subscribed capital and an authorized capital in the NDB were distributed between the participating states equally. The Bank’s headquarters were set to be in Shanghai (China), and it was agreed that the bank would lend globally.

In addition, in 2013 China initiated the creation of another new multilateral development bank, the China-led Asian Infrastructure Investment Bank (AIIB) – a large financial institution with initial total capital of $100 billion. After two years of preparation, in December 2015 the AIIB was formally established with 57 founding members, among which China is the largest shareholder with a share of 32% [Asian Infrastructure Investment Bank, 2017].

There are two major factors underlying the creation of the AIIB and the NDB. The first is that traditional MDBs, national development banks and private investors\(^{10}\) are not able to fully meet the rising demands for infrastructure investment in the developing world. Rapid economic growth and urbanization in many Asian developing countries stipulates the necessity of infrastructure development. In the ADB’s report published in February 2017 Asia’s demand for infrastructure investments was estimated to be as high as $26 trillion between 2016 and 2030, or $1.7 trillion per year. The $1.7 trillion annual estimate is more than double the $750 billion estimate made by the ADB in 2009 [Asian Development Bank, 2017b]. According to the evaluations made by the Organisation for Economic Co-operation and Development (OECD), in 2013 total official assistance for infrastructure projects reached $60 billion, out of which $11.7 billion was approved by the World Bank — the largest provider of infrastructure financing.

Yet, although MDBs remain the main source of infrastructure assistance to the developing world, MDB infrastructure financing has declined dramatically over the past several decades if one takes into consideration infrastructure financing’s share of total investments. Initially created to support infrastructure development, MDBs over the course of time have shifted their focus towards promoting favourable investment climates in developing countries by promoting political and economic reforms there. For instance, while in the 1950s and 1960s the World Bank used to extend 70% of its loans for infrastructure projects, by 1999 infrastructure financing had decreased to 19% of its loans [Wang, 2016]. The World Bank moved away from the priority of supporting infrastructure development and instead placed increased emphasis on climate change, poverty reduction, refugees, good governance and some other issues.

Further, the loan conditionality that has been traditionally and widely practiced by MDBs while providing assistance to developing countries (such as social and environmental safeguards, anticorruption measures, open and transparent procurement policy, etc.) has made developing countries less interested in such loans [Weiss, 2017]. As a result, the demand for infrastructure investment is far greater than the amounts that are being provided by the MDBs and other sources.

\(^{10}\) Private investors and national development banks are very cautious about making investments in infrastructure because of its long-term nature and high risks.
The AIIB and the NDB are, as claimed by their founding members, intended to both fill the infrastructure gap and to set a new model of development cooperation between MDBs and recipient countries by providing assistance that is not conditional on specific reforms in the borrowing countries.

The second factor is that the creation of new MDBs is intended to increase both the representation and the voice of developing countries in the global economic governance system. Traditional MDBs were created at time when the global economic order was dominated by western European countries, the U.S. and Japan, and they are still mainly controlled and dominated by these very same countries [Shelepov, 2016]. In contrast, the AIIB and the NDB are financial institutions established and controlled by developing countries. The creation of new banks was meant to exert pressure on developed countries and traditional MDBs to reform their governance structure, operational rules and investment priorities.

It is noteworthy that the creation of the AIIB and the NDB contributed to positive shifts in western countries’ approaches toward the issue of the role of developing economies in global economic governance and the issue of providing infrastructure financing for developing countries. There emerged an opinion in the U.S. that Washington should try to enhance the attractiveness of the U.S.-led World Bank and other MDBs by advocating for greater representation for developing countries in these financial institutions. In 2014, the World Bank initiated a Global Infrastructure Facility with an initial fund of $100 million with the aim of bringing together and coordinating the efforts of MDBs, private investors and other institutions involved in infrastructure investment in developing countries. In May 2015, Japan’s Prime Minister Abe announced the Partnership for Quality Infrastructure initiative by which the Japanese government would provide $110 billion for “quality infrastructure development” in Asia over the next five years in collaboration with the Asian Development Bank [Ministry of Foreign Affairs of Japan, 2015].

China’s Motivation in Establishing the AIIB and the NDB

Besides the common goals China and other developing countries are pursuing though the establishment the AIIB and the NDB, Beijing also pursues its own national interests and objectives.

First, the establishment of large-scale financial institutions promotes the enhancement of China’s status, prestige and influence in the world arena, and reflects China’s aspiration for great power status and the role of global power. After the fifth generation of Chinese leaders came to power, there emerged strong signs that China was denouncing the basic foreign policy principles formulated by Deng Xiaoping in late-1980s and early-1990s, the so-called “28-character formula” [Portyakov, 2012]. In the last few years Beijing has started to neglect more often its basic foreign policy basic principle of “taoguang yanghui, yousuo zuowei” (keeping a low profile while trying to accomplish something) and to show its determination to assume leadership functions in the world arena, if not to a full extent, at least selectively on certain regional and global issues.
The creation of new MDBs has proved China’s ability to play a leadership role in the world arena and to implement initiatives of not only regional, but global importance. The New Development Bank, comprising five large countries from three continents, has become the second global MDB after the World Bank; other MDBs are regional or sub-regional in scope. The AIIB, which currently has 80 members (including developed economies like Germany, Great Britain, France, Italy, Korea, Australia and New Zealand) is smaller than the IBRD and IDA (consisting of 189 and 173 members respectively) and of the same size as the African Development Bank (80 members). Comparing MDBs’ subscribed capital, only the European Investment Bank (€243.284 billion), the IBRD (USD 263.3 billion), the Inter-American Development Bank (USD 170.9 billion) and the ADB (USD 153.05 billion) surpass the AIIB.

It is also very important for Beijing that both the AIIB and the NDB are headquartered in China, in Beijing and Shanghai respectively. Previously, no MDB headquarters were located in China.

Second, in contrast to other MDBs in which China has relatively small shares of voting rights (in the IDRB China’s voting power represents 4.59%, in the IDA a mere 2.21% and in the ADB only 5.46%) or rights equal to those of other founding members (as in the NDB), in the AIIB China enjoys the largest voting power (27.52% as of June 2017), which gives China an upper hand in the decision-making process. India and Russia, the second and the third-largest shareholders of the AIIB, maintain 7.93% and 6.25% voting shares respectively [Asian Infrastructure Investment Bank, 2017]. This means that, during voting by the AIIB’s board of directors over issues that are decided by a majority of votes cast, with China’s 27.52% voting share a majority of votes can be achieved with only four members voting in favour. For special votes that require a 75% special majority (such as approving membership, selection of the president, increasing the capital stock of the AIIB and changing the size or composition of the board of directors), China has an effective veto with more than a quarter of the votes [Weiss, 2017].

The creation of the AIIB is often seen by experts as reflecting China’s dissatisfaction over the slow pace of reform in traditional MDBs regarding the enhancement of China’s role. That is correct, but it needs to be emphasized that regarding reform of existing MDBs or the establishment of new ones, China wants to play a leadership role, not just to be elevated to the second-largest stakeholder status. Within this context one can assume that China enjoys a rare historical opportunity. By taking advantage of growing discontent among developing countries over the slow progress of reform of the Bretton Woods institutions, China has managed to build support for the establishment of a new MDB – the China-led AIIB. As one Chinese analyst pointed out, the

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11 Between December 2015 and June 2017, the AIIB’s board of directors has approved 23 applications for membership (in addition to the 57 founding members). Currently these 23 countries are at different stages of the formal process to join the AIIB.

12 The AIIB’s board of directors comprises nine directors elected by regional members and three elected by nonregional members.

13 Due to the U.S. Congress’ long delay in approving the International Monetary Fund governance reforms of December 2010, this reform package came into force only five years later in 2015.
establishment of the AIIB strengthened China’s status as a major reformer in the global governance system [Pang, 2016].

Third, Beijing hopes to use both banks to expand and promote the internationalization of China’s national currency, the renminbi, by making it an investment currency of these banks in future [Zhen’min’ zhibao, 2015]. The first step in this direction was made in July 2016, when the NDB issued its first five-year renminbi-denominated bonds worth 3 billion yuan (USD 450 million) in mainland China.

Fourth, since both the AIIB and the NDB are focused on infrastructure financing, they are expected to promote the fulfillment of large infrastructure projects in developing countries, which Beijing hopes will be undertaken by Chinese contractors due to China’s vast experience, competitive advantages and international fame in infrastructure building. Moreover, with China playing a prominent role in new MDBs, Beijing will likely be able to direct some financial resources to projects within the Belt and Road initiative. Many of the projects approved by the AIIB during its first year were along the route of this initiative. For example, two of these projects — the construction of the M-4 Motorway Shorkot-Khanewal section and extension of Tarbela 5 hydro-power — are an integral part of the China-Pakistan Belt and Road economic corridor.

On the whole, infrastructure development in developing countries with assistance from the AIIB and the NDB will ease China’s access to raw materials in these countries and will create more favourable conditions for further enhancement of China’s trade and economic cooperation with them.

Fifth, broadly speaking, the AIIB is capable of promoting regional integration in Asia [Abalkina, 2007]. Channeling regional integration processes in a direction favourable to China (especially in light of competition between American and Chinese models of regional integration) is an important objective for China’s leadership. The absence of the U.S. from the AIIB facilitates this task. Further, on a micro level the AIIB is aimed at deepening sub-regional integration between China and the countries of the Association of Southeast Asian Nations (ASEAN) by means of financing transport, telecommunication, energy and other projects in South East Asia [Klishin, Pavlov, 2016].

Conclusion

While having a relatively short history (less than 40 years) of engagement with MDBs, China has been able to maximize the profits from it: by using large loans it succeeded in promoting economic and social development and building a national infrastructure industry drawing on the experience of undertaking large infrastructure projects with support from the MDBs. The extensive assistance provided to China by MDBs has been one of the decisive factors in China’s economic miracle.

With the second-largest economy in the world and extensive financial resources that enable Beijing to heavily invest around the globe, China nevertheless shows a reluctance to stop borrowing from MDBs and remains a major recipient of funding from the IBRD, the ADB and the Nordic Investment Bank. The simultaneous exercise of
two functions in its engagement with MDBs — as a recipient/borrower and a donor/creditor — allows China to borrow large volumes of loans from the MDBs on attractive terms pursuing its own development tasks, and at the same time to provide assistance to developing countries thus enhancing China’s international standing and influence.

As a matter of fact, China’s parallel exercise of these two functions is indicative of an incompletion of two processes: a process of China’s modernization and a process of China’s becoming a great power with global influence. Contemporary China is ambivalent — it is a country which has made great leaps forward in its economic and social development and has achieved high macroeconomic indicators; yet at the same time China faces many problems, challenges and threats.

Beijing’s strategy of creating China-led MDBs indicates China’s growing foreign policy ambitions, its aspiration for a leadership role if not of the whole world, at least among developing countries. In some ways, China’s ambitions initiated a third wave of MDBs. Still, Beijing’s selective approach to the question of shouldering international responsibility as well as exercising leadership functions (which, for example, are manifested in the fact that China remains the largest borrower from MDBs) indicates that the process of China becoming a great power with global outreach is still in progress. China is at the very initial phase of this long process, and the result is still unclear.

However, there are good grounds for seeing the creation of new MDBs as a solid step toward enhancing China’s standing in the world economy and the international system. Financial institutions on the scale of the AIIB and the NDB have not appeared since the 1990s. The AIIB has been gaining support from the broad international community: during its first 18 months as many as 23 countries applied to join it. Despite speculation circulating in some western countries over the possibility that China will abuse its dominant position and promote low standards for the new financial institutions (for instance, in social and environmental protection, procurement, etc.), it seems that Beijing will try to do its best to make these institutions efficient and supportive of high international standards. After all, China’s leadership role depends on it.

References


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Функциональные изменения участия Китая в многосторонних банках развития: от заемщика к кредитору

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Важную роль в мировых экономических процессах и глобальном экономическом управлении играют многосторонние банки развития, способные задавать вектор развития развивающихся стран. С момента учреждения первого многостороннего банка развития в 1944 г. – Международного банка реконструкции и развития – в создании такого рода финансовых институтов выделяются три крупные «волны», каждая из них вызвана серьезными изменениями на мировой арене. О начале наблюдаемой ныне третьей «волны» создания многосторонних банков развития свидетельствует учреждение Нового банка развития (НБР) и Азиатского банка инфраструктурных инвестиций (АБИИ), ставшее следствием произошедшего в мировой экономике перераспределения экономической мощи между развитыми и развивающимися странами, решающую роль в котором имело усиление экономической мощи Китая. Данная статья призвана проследить функциональные изменения участия в многосторонних банках развития Китая как основного драйвера третьей «волны» создания многосторонних банков развития, охарактеризовать формы участия Китая в многосторонних банках развития на разных исторических этапах и выявить основы заинтересованности Пекина в создании новых многосторонних банков развития. В статье демонстрируется, как за неполные сорок лет взаимодействия с многосторонними банками развития Китай прошел путь от крупного заемщика до кредитора, от рядового участника до инициатора и учредителя новых многосторонних банков развития под своей эгидой. В статье определяются масштабы, характер и динамика оказания многосторонними банками развития помощи Китаю с 1981 г. по настоящее время, при этом подчеркивается, что Китай по-прежнему остается одним из крупнейших получателей займов, несмотря на то, что является второй экономикой мира. В качестве поворотных моментов во взаимодействии Китая с многосторонними банками развития определяются 2004—2005 гг., когда Китай стал расширять свою роль кредитора, а также мировой финансово-экономический кризис 2008–2009 гг., на фоне которого Пекин взял курс на стимулирование реформирования системы глобального управления и создание новых финансовых институтов, подконтрольных Китаю. Курс Китая на создание новых многосторонних банков развития трактуется в статье как обнаруживающий внешнеполитические амбиции Пекина, его стремление к занятому в перспективе лидерской роли в мировых экономических процессах, а совмещение Китаем двух функций в контексте его участия в многосторонних банках развития (функции заемщика и кредитора) — как отражающее незавершенность процессов модернизации Китая и его становления в качестве великой державы с глобальным влиянием. В целом создание АБИИ и НБР расценивается в статье как серьезная заявка Китая на укрепление его позиций в мировой экономике и международной системе.

Ключевые слова: глобальное управление; многосторонние банки развития (МБР); Китай; Новый банк развития (НБР); Азиатский банк инфраструктурных инвестиций (АБИИ); иностранная помощь; Всемирный банк; Азиатский банк развития; инфраструктурные инвестиции; БРИКС


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