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”
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

<table>
<thead>
<tr>
<th>Institution</th>
<th>G7 member shares</th>
<th>BRICS member shares</th>
<th>Subscribed capital (2013)</th>
<th>Annual flow (2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>World Bank</td>
<td>43.71%</td>
<td>13.87%</td>
<td>$223 billion</td>
<td>$24.5 billion</td>
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<tr>
<td>ADB</td>
<td>45%</td>
<td>12.8%</td>
<td>$162.8 billion</td>
<td>$8.7 billion</td>
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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