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Visiting address: C.J. Hambros plass 2d
Address: P.O. Box 8159 Dep.
NO-0033 Oslo, Norway
Internet: www.nupi.no
E-mail: post@nupi.no
Fax: [+ 47] 22 99 40 50
Tel: [+ 47] 22 99 40 00

China and Multilateral Development Banks

Positions, Motivations,
Ambitions

Hans Jørgen Gåsemyr

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Acronyms frequently mentioned in the report

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China and South Africa
EBRD	European Bank for Reconstruction and Development
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IMF	International Monetary Fund
MDB	multilateral development banks
MoU	memorandum of understanding
NDB	New Development Bank
PRC	People's Republic of China
SCO	Shanghai Cooperation Organization
WB	World Bank

Summary

In the larger realm of international finance and development, the multilateral development banks (MDBs) are actors of modest standing. Still, together with the International Monetary Fund (IMF), they are key arenas for discussion, agenda- and standard-setting.

China's relationships with MDBs serve many interests. In the World Bank and the IMF, China has pushed for stronger developing-country representation, while making active use of the lending instruments and expertise of these institutions. Slowly but surely, China has expanded its voting shares as well as the presence of Chinese managerial and professional staff. This expansion is set to continue. On the other hand, these institutions are paying greater attention to China's domestic and bilateral lending practices, its debt and development issues, adding pressure for China to adhere to international standards and norms.

China has initiated two international, development-oriented banks, the Asian Infrastructure Investment Bank and the New Development Bank. While the former has evolved into a high-profile multilateral institution, the latter has remained largely restricted to the five BRICS countries. Both banks, however, are expanding their operations, setting the stage for more international institutions to be headquartered in China in the future.

The regional banks are a significant but less studied aspect of China's MDB activity. China continues to cooperate closely with the Asian Development Bank and maintains strong relations with the African Development Bank. More recently, China has joined the Inter-American Development Bank and the European Bank of Reconstruction and Development.

China's engagement with MDBs is proactive and strategic: it works within the traditional banks, and it initiates new institutions. Although sometimes seen as controversial by some members, China is largely regarded a constructive actor, working to foster economic growth and interconnections. China actively promotes its own interests, like the Belt and Road Initiative—but, within the MDBs, takes care not to provoke protest or appear too domineering.

MDBs and the IMF represent a limited, yet significant, aspect of China's overall global engagement.

Introduction

The evolving relationships between the People's Republic of China (PRC) and the major multilateral development banks (MDBs) reflect China's evolution as a prospering developing country and a major power. Why has China been nurturing strong interests towards MDBs? This report focuses on changing positions, motivations, and ambitions concerning China and multilateral development banking.

A clear trend of expanding engagement

Not until the PRC government was welcomed into the post-World War II structure of international governance, starting with Beijing taking over the China seat in the UN in 1971, did participation in the Bretton Woods Institutions become an option. The reform-oriented government that consolidated power in China following the death of Mao (1976) made this a priority. In 1980, it formally assumed the responsibilities for China in the International Monetary Fund (IMF) and the World Bank (WB).¹

Over the following decades, China made active use of the support instruments of the Bretton Woods Institutions, the WB in particular. In the mid-1980s, China joined the African Development Bank (AfDB) and the Asian Development Bank (ADB), taking steps into regional development banking. As its economy has grown, and its own development propelled, China has scaled up its participation in MDBs and the IMF. While continuing to push for better developing-country representation, it has expanded its overall engagement with—and presence within—these institutions more rapidly than it has increased its formal voting powers.

Economic growth and socioeconomic development are areas where Chinese politicians have strong accomplishment records and feel confident. For instance, China has built very large banking institutions to support its own development trajectory, notably the China Development Bank (CDB) and the Export–Import Bank of China (Exim Bank). These banks play prominent roles in China's outward investments, and its credit, lending, and aid activities. Moreover, China has established a wide range of bilateral and regional funding vehicles outside the MDB world. In terms of overall finances and institutions, the MDBs are only a piece of a larger picture. Nevertheless, China has continued to prioritize multilateral development

¹ The IMF is not a “bank,” but is included in this analysis because of its strong association with and importance for MDBs.

banking, working to maintain its status as an eligible borrower and to expand its role as lender and donor.

In 2015, the Asian Infrastructure Investment Bank (AIIB) was established. Based in Beijing, the AIIB has in less than three years become a high-profile institution. China has initiated international organizations in the past, most notably the Shanghai Cooperation Organization, but the AIIB is the first truly multilateral institution for which China is responsible. China is also headquarters to another developing bank of global proportions, the New Development Bank (NDB). Although the NDB remains limited to the five BRICS countries, both banks speak to China's enthusiasm for development banking and multilateral institutions.

Table 1: China in the MDBs and IMF

Name	Established	PRC joined	PRC main status
IMF	1944	1980	member, contributor
WB (IBRD)	1944	1980	borrower, contributor
AfDB	1964	1985	contributor
ADB	1966	1986	borrower, contributor
IDB	1959	2009	contributor
NDB	2014	2014	founder, contributor, borrower
AIIB	2015	2015	founder, contributor, borrower
EBRD	1991	2016	contributor

Sources: The institutions' websites and records.

Note: "Contributor" status refers to core capital contributions, funding of trust funds, and other financial contributions.

One notable but often overlooked aspect of China's role in international development financing is its recent engagement with other and non-Asian regional MDBs. China joined the Inter-American Development Bank (IDB) in 2009 and the European Bank for Reconstruction and Development (EBRD) in 2016. This is in line with the rapid expansion of Chinese economic ties with countries in these regions. Although some of their members have expressed concern, these banks are eager to engage with China as a partner and contributor.

This report studies China's positions within the MDBs and the underlying motivations and ambitions, shedding light on various issues facing MDBs today. Some of these are directly related to China, like how to deal with the Belt and Road Initiative (BRI). Other issues are more general and are relevant for other middle-income countries as well. The analysis is organized in four sections, starting with the Bretton Woods Institutions, moving on to the China-initiated banks, and then the regional MDBs, before ending with some concluding remarks.

About this report

The report is part of a broader research program on China and international governance and institutions. The analysis in this report is based on some 35 extensive interviews and discussions, conducted between May and November 2018, often with multiple participants, including representatives of all the studied MDBs and the IMF, Chinese authorities, and Chinese and international research, think-tank, and policy-analysis institutions. Other important sources include written materials, such as annual reports and strategy documents, academic literature and additional media coverage. Much of this work has been supported by a grant from the Norwegian Ministry of Foreign Affairs. The research follows the ethical guidelines of the Norwegian National Committee for Research Ethics in the Social Sciences and the Humanities.

The Bretton Woods Institutions

When the People's Republic took over the China-seat in the UN in 1971, it entered international politics from a position of relative isolation. In 1974, the Chinese government turned down the first invitations from the IMF and the WB, noting concerns over their voting formulas, which were heavily skewed towards the most developed countries.² However, when China's more reform-minded leaders took charge in the late 1970s, such considerations changed. By May 1980, Beijing had assumed formal responsibilities (for China) in both the Bretton Woods Institutions.

The International Monetary Fund

The IMF is not a developing bank but has a central place in the world of development governance and finance. MDBs frequently look to the IMF for assessments and advice. China's history with the Fund has included controversial episodes and periods of severely strained relations,³ but IMF–China relations today are more dynamic than ever.

Upon entering the IMF, Beijing negotiated an increase in its quota; in 1983, this was further increased, giving China the right to constitute a single constituency and select its own executive director. With subsequent expansions, most recently in 2016, China's quota share is now 6.15 percent. This places China third in the IMF hierarchy—still far behind the dominant USA, whose quota share is still large enough for it to veto some decisions, and just behind Japan, which has been able to retain its number two spot. Nevertheless, the change is significant. It took the US Congress five years to ratify the latest quota distribution, which had been decided by the IMF Board already in 2010. The difficulties are not over: a new round of IMF quota reviews, already overdue, is scheduled for 2019.

Since its inclusion in the Bretton Woods Institutions, the PRC government has complained about the low developing-country representation, and, together with many other countries, has pushed for changes. However, it is not clear which position China ultimately wants in

² For an in-depth discussion of China's entry into the IMF and the WB, see Ann Kent (2007): *Beyond Compliance: China, International Organizations, and Global Security*, Stanford University Press.

³ The Chinese authorities' arrest, and subsequent sentencing, of a Chinese IMF official (seconded from China) in 1995 triggered substantial diplomatic protest. See Footnote 1 for reference

the IMF.⁴ In fact, this uncertainty taps into deeper questions concerning China's status as a developing country and its readiness to take on international responsibilities. Various US administrations have given mixed indications as to what extent they might work to prevent or facilitate a trajectory in which China gains and the USA decreases its share, eventually falling below the veto mark (15 percent). The current US administration has signaled its opposition to further changes in the distribution of quotas, and China has not been taking a firm stance here.⁵ Instead, Chinese representatives reiterate the need for general reform, saying they are "open to any constructive approach" to the next quota review.⁶ However, this issue is not going to disappear, and if the Chinese economy keeps growing, occasionally surpassing that of the USA, the IMF may eventually have to consider moving its headquarters to China.⁷

Beyond the issues of quotas and voting, China has made use of IMF credits only twice, in 1981 and in 1986 (fully repaid). China's main use of IFM resources has concerned technical expertise and training opportunities. Possibly the most significant, and at times controversial, aspect of China's membership have been the annual IMF reports on the Chinese economy, part of the Article IV assessments.⁸ Among the issues repeatedly noted by the IMF, the value of the Chinese currency (Renminbi) remained a sore point for many years. In 2007 and 2008, the IMF was not able to conduct its regular Article IV assessment in China, largely because of disagreements related to this issue. Eventually, China changed its currency evaluation practices, leading to a gradual appreciation (increase) on the value of the Renminbi; IMF assessments were back on track in 2009.⁹ Importantly, the Renminbi was in 2016 included in the basket of currencies

⁴ This was repeated in multiple discussions with Chinese officials and policy analysts, between May and November 2018. For previous, similar observations, see Tony Saich (2015): *Governance and Politics of China*, Palgrave (London).

⁵ On the US position, see Edwin M. Truman (September 21, 2018): "Opinion: U.S. Must Engage China on Rising Debts of Belt and Road Countries," *Caixin* (online). Available at: <https://www.caixinglobal.com/2018-09-21/opinion-us-must-engage-china-on-rising-debts-of-belt-and-road-countries-101328973.html> (accessed November 10, 2018).

⁶ See statement from Yi Gang, Governor, People's Bank of China (dated October 14, 2018) to the 2018 meeting of the International Monetary and Financial Committee in Bali, Indonesia. Available at: <https://www.bis.org/country/china.htm> (accessed November 10, 2018).

⁷ The IFM rules (Articles of Agreement) stipulate that the IMF "principal office" shall be located in the "territory of the member having the largest" quota (Article XIII, Section 1). However, quotas are calculated based on a formula that takes into consideration more criteria than merely the size of the economy.

⁸ Hong Kong, which is part of China as a Special Administrative Region, has its own Article IV process, but is not a distinct member of the Fund.

⁹ See K. Subramanian (2009): "Burial of a Controversy: The IMF, the US and the Renminbi," *Economic and Political Weekly*, 44 (36).

that comprise the Special Drawing Rights. This was a boost to the internationalization of China's economy and the convertibility of its currency.

In recent years, the IMF has repeatedly expressed concerns over China's account surplus, high savings rates, and export–import imbalances, and has noted the need to give market forces freer play in the economy. However, the IMF has rejected some observers' claims that the Chinese currency is still undervalued.¹⁰ Moreover, the IMF continues to view Chinese debt issues as a critical matter; the Fund is among the more critical international organizations as regards China's huge infrastructure initiative, the BRI. Many Chinese financial institutions are considered to be still underdeveloped; and China's own lending and credit giants, the China Development Bank and the Exim Bank, are frequently criticized for poor transparency standards. Moreover, the IMF sometimes mentions specific countries to exemplify its concern over China-related debt and lending, as it did recently with Pakistan.¹¹

However, one should not exaggerate the controversy around the IMF's critical remarks towards China. Financial-sector reform has been a priority in China for many years, and vulnerabilities are well known. Many governmental leaders see IMF assessments as constructive tools, providing them with arguments and documentation for internal debates. Debt issues, related to domestic as well as international lending, are widely debated, and the government has taken many measures aimed at risk reduction.¹² Most importantly, China takes its relations with the IMF very seriously. A Chinese national has served as IMF deputy managing director since 2011, and a growing number of highly educated Chinese economists are today building careers within the Fund. In 2017, China and the IMF established a training center, anchored in Beijing, for government officials from China and other countries to study macroeconomic issues. This reflects strategic priorities on both sides. The IMF has a resident representative office in Beijing (established in 1991), staffed with two international officials and several national professionals. The People's Bank of China is formally

¹⁰ See IMF Country Report No.18/240 (2018 IV Consultation for the PRC). Available at: <https://www.imf.org/en/Publications/CR/Issues/2018/07/25/Peoples-Republic-of-China-2018-Article-IV-Consultation-Press-Release-Staff-Report-Staff-46121> (accessed October 29, 2018)

¹¹ See *South China Morning Post* (October 9, 2018), <https://www.scmp.com/news/asia/south-asia/article/2167574/pakistan-poised-see-bailout-imf-stabilise-economy-chinese-debt> (accessed November 12, 2018)

¹² For examples, see *South China Morning Post* (June 12, 2018), <https://www.scmp.com/news/china/economy/article/2150466/china-surprises-may-slowdown-new-loans-risk-controls-hit-lending> (accessed September 4, 2018)

responsible for the country's IMF relations. There is also an IMF office in Hong Kong.

The World Bank

Like the conditions surrounding its entry into the IMF, PRC membership in the WB was accompanied by an expansion of China's voting share, raising it to 2.84 percent. This entitled China to a single-state constituency and its own executive director. The share of China has further increased, and is today the third largest, behind the USA (which retains a veto-enabling share) and Japan.

China often repeats its principled stance that the Bretton Woods Institutions, including the WB, need better developing-country representation. Beijing has been pushing for changes, but its level of dissatisfaction may sometimes be overstated. The Chinese government has not set clear targets or a roadmap for when or how its shares should increase. Moreover, within the world of international politics and bickering, the weaker position of China, relative to its economic might, reinforces its identity as a developing country. In many instances, Chinese prefer distancing their country from the interests, and the favorable positions, of the most developed world.¹³ Table 2 lists the positions of selected countries (for context) in the IMF, the WB and some other MDBs.

Table 2: Voting power (percentage of total) in MDBs and the IMF

	GDP, in USD bill.	IMF	WB-IBRD	AIIB	NDB	ADB	AfDB
USA	19,391	16.52	15.98	-	-	15.6	6.63
China	12,238	6.09	4.45	26.59	20	6.4	1.19
Japan	4,872	6.15	6.89	-	-	15.6	5.53
Germany	3,677	5.32	4.03	4.20	-	4.3	4.17
India	2,597	2.64	2.93	7.64	20	6.3	0.27
Brazil	2,056	2.22	2.25	-	20	-	0.34
Russian Fed.	1,578	2.59	2.79	6.01	20	-	-
Norway	399	0.78	0.59	0.72	-	0.57	1.19
S. Africa	349	0.64	0.77	-	20	-	5.06

Sources: WB (for GDP) and the institutions' records (November 2018)

¹³ This balancing act between projecting power and emphasizing developing country status is evident in many government speeches, for instance Xi Jinping's keynote to the 19th National Chinese Communist Party Congress (October 18, 2017). Available at: http://ces.ustb.edu.cn/uploads/soft/171019/26_1651285121.pdf (accessed October 20, 2017)

What is commonly referred to as the World Bank is in fact a group—the WB Group—made up of several institutions. The International Bank for Reconstruction and Development (IBRD) is the biggest in terms of financial muscle and recognition, while the International Development Association (IDA) is especially important for least-developed countries, which are entitled to grants and especially advantageous concessional, loans. China lost its IDA status in 1999, when its per capita income level reached the set threshold. However, China’s borrowing from the IBRD has remained very substantial, some years topping the list of the Bank’s largest borrowers. China is also part of the WB’s Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes. Moreover, China has made increasing use of the private lending arm within the WB Group, the International Finance Corporation.

China’s enthusiasm for WB loans speaks to the strengths of the WB expertise and technical support apparatus. As the Chinese economy has continued to grow, the financial significance of the loans has become less and less apparent. It is noteworthy that China did not shy away, although the WB (together with the IMF) was long known for pushing countries into privatizing and liberalizing their economies, commonly associated with the “Washington Consensus” model. However, China was selective, and has remained cautious about liberalizing its finances. The Bank, and the IMF, have had to respect this. On the other hand, Beijing has welcomed several high-profile, relatively critical WB studies. The *China 2020* report, published in 1997 and, in 2012, the *China 2030* report,¹⁴ both triggered considerable debate, inside and outside China. Such reports not only point to problems and propose solutions; they sometimes bolster the arguments of Chinese government leaders in their internal policy debates.

Entering the WB became a strategic priority for the Chinese government in the late 1970s. The attraction was mutual. The WB president at the time, as per tradition an American, navigated through opposition within the US government to expedite the process.¹⁵ Discrepancy between WB leadership positions and US policy has since occurred several times in relation to China. Most recently, the WB president has both expressed enthusiasm for and signed (together with other MDBs) a memorandum of understanding (MoU) on China’s colossal infrastructure initiative, the BRI.¹⁶ China and the

¹⁴ Full title, *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*. Co-published with the Development Research Center of the State Council (PRC).

¹⁵ See Ezra Vogel (2011): *Deng Xiaoping and the Transformation of China*, The Belknap Press of Harvard University Press (Cambridge, MA).

¹⁶ The MoU is available here: <https://www.ndb.int/wp-content/uploads/2018/09/MOU-on-BRI-signed.pdf> (accessed November 9, 2018)

WB are reportedly also discussing the possibility of establishing a BRI-related trust fund within the Bank. This positive attitude towards the BRI is far from US position.

The USA, and some other WB member countries, have strongly opposed China's remaining a leading benefactor of the Bank's loans and resources. The latest changes to the WB's distribution of shares, following a capital increase finalized in 2018, came together with a long-contested decision to restrict the Bank's lending criteria, making China and other upper middle-income countries eligible for fewer loans.¹⁷ This taps into a more fundamental discussion underway in many MDBs, concerning "graduation": whether, when and how countries should stop receiving assistance. Many favor an approach whereby the MDBs continue lending, also after countries reach certain income levels. Both China and India are frequently mentioned as countries that should be allowed to keep borrowing. Sizeable loans to countries that can be expected to abide by the agreed repayment plans also help the Bank to maintain its credit ratings. For the WB, the status quo, a compromise, is now to apply slightly stricter lending criteria to middle-income countries, without cutting its assistance too short.

The current WB strategy for China highlights green and inclusive growth, and bridges recent years' priority areas with the evolving UN Sustainability Development Goals Agenda. The WB has also become increasingly involved in what has become known as South-South cooperation, supporting knowledge transfer and experience sharing between China and other, poorer, developing countries. In 2017, WB lending to China reached around USD 2.4 billion.¹⁸ The WB has maintained a relatively large Beijing office with some 100 staff. Under the new lending criteria, loans to China are expected to decrease somewhat in coming years. However, the number of Chinese nationals being hired by the Bank is growing. Notably, in 2016, a Chinese national was appointed to one of the WB's topmost positions, as Managing Director and WB Group Chief Administrative Officer. Also in previous years, Chinese nationals have served in high-status functions. In 2015, China donated USD 50 million to set up a bank trust fund for poverty reduction. Still, China's overall contributions, including its pledges to IDA, have remained modest. Chinese officials are wary of domestic reactions to increasing the country's

¹⁷ See Reuters (David Lawder) (April 21, 2018): "World Bank shareholders back \$13 billion capital increase." Available at: <https://www.reuters.com/article/us-imf-g20-wbank/world-bank-shareholders-back-13-billion-capital-increase-idUSKBN1HS00S> (accessed June 8, 2018)

¹⁸ See WB China-page for updates, <https://www.worldbank.org/en/country/china> (accessed November 13, 2018)

development aid, and although China will step up its donations, they will still be measured against its own domestic development needs.¹⁹

China has a stellar record in paying its WB dues, but overall and qualitative project assessments have also varied over the years. Some projects have raised criticism, with observers accusing the Bank of failing to ensure that its strict safeguards are sufficiently applied in China. In 1999, the Bank was pressured into launching an extensive investigation into a poverty reduction program, including activities in Qinghai province. The investigation refuted many claims, but it did document implementation problems serious enough for the Bank to end its involvement, accompanied by sharp complaints from Beijing.²⁰ Safeguards continue to trigger debate within the Bank, and some observers believe that China is, or has been, working to get the standards lowered. However, the many WB officials interviewed for this report rejected claims that China has been working to water down the Bank's safeguards regime. China has argued, sometimes insisted, that WB project evaluation and implementation should be streamlined and simplified, but this does not necessarily mean lowering any standards.²¹ Moreover, as shown in the next section, in many cases, the China-initiated banks have also adopted WB safeguards.

¹⁹ This point was repeated in multiple discussions with Chinese officials and policy analysts, May–November 2018.

²⁰ For elaboration, see Ann Kent (2007): *Beyond Compliance: China, International Organizations, and Global Security*, Stanford University Press.

²¹ This observation is based on interviews with six current and former WB officials, November 2018.

The China-initiated banks

In recent years, China has become home to two new international organizations—the AIIB and the NDB, both referred to here as China-initiated banks. The former was discussed among multiple regional and non-regional countries before it materialized; the latter grew out of talks among the five BRICS countries. In other words, China did not totally control the initiation of either organization. However, there is no question who was the main driver, and neither of them would have emerged, were it not for China. Thus the term “China-initiated.”

The AIIB and the NDB are very different institutions, but share several features. Both position themselves as part of the MDB family, and apply many international development-banking norms. However, both strive to be different. Observers who have followed the debate on (traditional) MDB reform note that both the AIIB and the NDB have experimented with some of the proposals made by Chinese and international observers.²² Both banks operate with a non-resident board of directors, and both, the NDB in particular, emphasize less conditionality and greater respect for country systems in their lending practices.²³

Chinese officials have long expressed frustration at the cumbersome bureaucracy within traditional MDBs. Moreover, both the AIIB and the NDB give more voice and power to developing countries, which has been a leading principle of Chinese foreign policy for decades. The AIIB and the NDB may also, over time, facilitate greater use of the Chinese currency (Renminbi), as well as the currencies of other member countries.²⁴ However, neither bank appears to have clear plans for concessional lending.²⁵ Finally, both banks prioritize infrastructure and economic

²² A highlight in this debate was the 2009 report of the High-Level Commission on Modernization of World Bank Group Governance, led by Ernesto Zedillo (former president of Mexico), commissioned by the WB.

²³ See NDB (2017): “NDB’s General Strategy: 2017–2021” and Adriana Erthal Abdenur (2014): “China and the BRICS Development Bank: Legitimacy and multilateralism in South–South cooperation”, *IDS Bulletin* 45 (4).

²⁴ For pointers to currency issues, see online articles in, *The BRICS Post* (24 July 2015), <http://thebricspost.com/brics-banks-1st-loan-to-be-issued-in-yuan/#.XBAPJGeotaQ>; and *The Global Times*, January 17, 2016), <http://www.globaltimes.cn/content/964106.shtml> (both accessed November 10, 2018).

²⁵ The AIIB has established a Project Preparation Special Fund, offering some concessional grants for members to prepare proposals. See: https://www.aiib.org/en/news-events/news/2016/20160625_004.html (accessed October 8, 2018)

growth, core principles underlying China's own development policies. Judging from the project portfolio, these banks also appear "green," sustainable, and environmentally friendly.

Many observers have seen the AIIB and the NDB as symptoms of China's growing frustration with traditional institutions, linking this to the larger debate on China adapting to, or challenging, the international system. However, there has been talk in China about the need for more and new financing institutions for many years. Soon after the turn of the millennium, Chinese officials mooted the possibility of establishing a banking institution within the Shanghai Cooperation Organization (SCO), but had to settle for less ambitious, inter-bank cooperation, like the SCO Interbank Consortium.²⁶ China has actively supported collaboration at the ministerial and central bank levels between the Association of Southeast Asian Nations and China, Japan, and South Korea, including their joint Macroeconomic Research Office (AMRO).²⁷ Lastly, China has established a range of domestic, bilateral and regional funds and other vehicles for international investment. Its development-oriented actors and interests form a very wide web. That said, China has also poured very significant resources and political prestige into establishing the AIIB and the NDB. In terms of China's internationalization activity, these institutions are still unique.

The Asian Infrastructure Investment Bank

The conception of the AIIB is associated with discussions in 2013, the same year known for the materialization of the BRI. For many observers, the two have proven difficult to distinguish, although the Chinese have talked about establishing a bank much earlier.

The AIIB was clearly a Chinese initiative, pushed forward with solid political backing. The USA was outspokenly negative, but its politicians may have misread the international signals and mood concerning China and the AIIB. When formally established in late 2015 (operational from January 2016), the AIIB gathered 57 (approved) members,²⁸ 37 of which were considered "regional" (including Australia, New Zealand and Turkey) and the rest non-regional member. The USA and Japan decided not to join; likewise, Canada at first, but in 2016 the Canadian government also applied for membership. Most notably, the AIIB hired several international staff—including US-national who had retired from the WB—to draw up the legal

²⁶ See the SCO website for background, <http://eng.sectesco.org/news/20170120/196564.html> (accessed 13 November 2018)

²⁷ See the AMRO website for more info, <https://amro-asia.org/publications/asean-3-research-group/> (accessed November 13, 2018)

²⁸ Kuwait, Brazil and South Africa were approved but have not completed the procedures, and are thus still considered prospective founding members.

framework and help formulate early strategies. China provided half of the total USD 100 billion initial capital investment.²⁹

Less than three years after its inception, the AIIB has achieved triple-A credit ratings and is widely seen as a progressing, well-managed, high-profile institution. Membership is now up to 93, with a global span. China retains over 26 percent of the voting share, which qualifies for vetoing certain decisions, but has declared itself open to reducing this share, following capital expansions in the future. There are currently no plans to establish office representation beyond the Beijing headquarters, but it is difficult to view the AIIB as anything but a multilateral institution. As such, and not counting the regionally focused Shanghai Cooperation Organization, the AIIB is China's first organization in this category. It employs over 200 staff, representing more than 40 nationalities, many of whom have status as international servants with diplomatic privileges.³⁰

The AIIB's core values, and guiding principles, are summed up in the catchwords "lean, clean, green," often cited by the leadership and taken seriously by its staff. "Lean" represents one feature where the AIIB is trying to stand out. Unlike the WB and other traditional MDBs, the AIIB has a non-resident board of directors. The AIIB is set to grow, but its leading officials insist they harbor no ambitions of getting very big, very fast. Rather, the AIIB wants to be seen as streamlined and effective in project management, with a strong emphasis on partnership and private capital mobilization. Bank officials are equally clear about wanting to build a knowledge institution, with robust expertise in all its priority sectors.³¹ Some may feel that this will be difficult for the AIIB to achieve while remaining quick and nimble. Its current project portfolio shows 33 approved projects and USD 6.5 billion in loans.

When it comes to "clean" and "green," the AIIB looks more like traditional MDBs. Many of its safeguards standards are similar, and many of its projects are co-financed with other MDBs from which much staff has also been recruited (hired or seconded). As the name indicates, the AIIB focuses on infrastructure, reflecting both the strengths and the interests of its main owner, China. Improved regional connectivity will improve China's

²⁹ For background, see <https://www.aiib.org/en/about-aiib/index.html> (accessed November 7, 2018)

³⁰ Information updated in correspondence with AIIB officials, December 20, 2018.

³¹ This was discussed in meetings with AIIB officials, November 20, 2018. Observations based on multiple meetings with AIIB officials and relevant researchers, between August and November 2018.

own supply and distribution of goods and natural/energy resources.³² On the other hand, cross-country connectivity and the principles of sustainability and renewability shine through many of its approved projects, which should benefit other countries as well. In fact, the AIIB's lending is not restricted to neighboring or even Asian countries, confirmed by already approved projects in Egypt. Nevertheless, all projects must have a significant impact on infrastructure and development with or within in Asia. Worth noting is that the AIIB's emphasis on international safeguards sets it apart from many domestic Chinese institutions, which apply national, often markedly lower, standards in their domestic and overseas projects.³³

The Chinese government is pleased with the AIIB. It has demonstrated China's ability to initiate and host leading, multilateral organizations, and it highlights many of the country's development achievements. Chinese leaders frequently mention it in connection with the BRI, and both the AIIB and the NDB are referred to in China's Belt and Road 2015 "white paper."³⁴ Further, the AIIB was one of the six MDBs that signed a joint MoU during the BRI Forum in Beijing in 2017.

The AIIB president, a Chinese national with a background from both national and international finance as well as development banking, must walk the fine line between appeasing the Chinese government and pleasing other regional and international stakeholders. Indications of this balancing act can be seen in the way AIIB officials talk about the BRI—positively, while objectively noting the individual value of each sponsored project. On the other hand, the fact that the AIIB's biggest borrower is India, a country that has certainly not embraced the BRI, does help to indicate that the AIIB is not merely, or necessarily, a BRI institution. This balancing act around the BRI constitutes a diplomatic dance that the AIIB shares with the NDB and other banks.

The New Development Bank

The NDB is a product of the five-country BRICS dynamic (Brazil, Russia, India, China and South Africa). The NDB is both very real and very

³² For further considerations of connectivity interests, see Arthur R. Kroeber (2016): *China's Economy: What Everyone Needs to Know*, Oxford University Press.

³³ See John Hurley, Scott Morris and Gailyn Portelance (2018): "Examining the debt implications of the Belt and Road Initiative from a policy perspective", CDG Policy Paper 121, March, Center for Global Development.

³⁴ National Development and Reform Commission (2015): *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st Century*. Available at: https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1249618.shtml (accessed April 5, November 2017).

symbolic; it is the foremost example of what the BRICS can achieve together. China is an eager supporter of the NDB, but is hoping to see it develop and internationalize its profile further.

NDB headquarters are located in Shanghai. In 2015 (the treaty was signed in 2014), it started out with USD 50 billion in subscribed capital and another 50 billion in authorized funds. NDB shares are equally distributed among the current members, who remain limited to the five founding BRICS countries.³⁵ Although the NDB has drawn up the framework conditions for how to enroll more members, actual expansion is subject to further decisions by its board of governors. The membership situation limits lending, staff recruitment and procurement to these five countries, unless special waivers are made. There is no timeline for when expansion may happen, but the bank is notably no longer formally referred to as the *BRICS* Development Bank, but is now called the *New Development Bank*.

China is reportedly one of the countries most eager to expand, while some of the other members have been stalling.³⁶ Unsurprisingly, the five (BRICS) country members may have differing opinions regarding the management and the evolution of the NDB. Compared to the AIIB, it has certainly maintained a low international profile and is much less known and talked about, even within MDB circles.³⁷ NDB leadership positions rotate, including the presidency, which is currently staffed by India. However, the bank's activity level is already substantial, with about 30 approved projects, some USD 7 billion in approved loans, and a staff of 180.³⁸ It has achieved an AA+ credit rating.

The plan is for the NDB to be present in all BRICS countries. One center has already established in Johannesburg, South Africa, and another office is to open in Brazil in the first half of 2019. These offices are to be called Regional Centers, indicating the clear intention to expand activities and attract more members. While the AIIB has stipulated special rights for founding and regional members, the NDB has special conditions for founding and developing and emerging economy members. Other countries are not to be excluded, but the BRICS countries will retain a 55 percent majority in the board of governors. As in the AIIB, a non-resident board of directors oversees the regular work of the NDB.

³⁵ See the Bank's website for general background, <https://www.ndb.int/about-us/essence/history/> (accessed November 1, 2018).

³⁶ This comment was made in three separate discussions, with NDB officials and outside observers, November 22 and 23, 2018.

³⁷ This became apparent during the fieldwork for the research and this report.

³⁸ Information updated in correspondence with NDB officials, December 9, 2018.

Like the AIIB, the NDB has committed to the Paris climate agreement and the UN Sustainable Development Goals Agenda. Many of its projects are in the fields of renewable energy and carbon-reducing infrastructure, and many of its safeguards seem to be based on international standards. In the coming years, more projects are also planned to be co-financed with other MDBs, leading some observers to question to what extent the NDB will deliver on its pledge to be “new” and “different.” The NDB has been accused of falling short, compared to other major MDBs, with respect to transparency and accountability.³⁹

The NDB was one of the six banks that signed the MoU on the BRI in 2017, but its association with the initiative is less close than the case for the AIIB. Many Chinese leaders are generally very eager to promote the BRI, but inside the MDBs at least, China remains sensitive to other countries’ perceptions. In the NDB, India has been the most outspoken skeptic. Looking into the next section beginning with the biggest regional development bank, the ADB, Japan also becomes a consideration in this regard

³⁹ This observation is drawn from a working paper by Caio Borges, titled “Continuities and Discontinuities in Legal and Institutional Experimentation in Multilateral Development Finance: An Analysis of the NDB and the AIIB”, dated December 2018. Referenced with the author’s permission.

Regional development banks

MDBs constitute one of many components in regional integration and governance. Not least in regions plagued by tensions and outright conflicts, MDBs serve vital functions. This section covers both the ADB, which remains important for China, and other, non-Asian, regional banks that China has decided to join, a reflection of its overall enthusiasm for multilateral banking.

The Asian Development Bank

With around USD 20 billion in loans granted in 2017, plus another 10 billion mobilized by way of its support and resources, the ADB remains the main regional MDB in Asia. China's relationship with the ADB dates back to the early 1980s; it became a full member in 1986. China is today its largest developing-country shareholder (6.4 percent) and second largest borrower, with more than USD 2.3 billion in loans committed to China in 2017 (roughly 12 percent of all ADB lending).⁴⁰

Among the MDBs, the ADB is sometimes noted as most closely resembling the WB. That may be because it, in terms of voting shares, is dominated by the USA and Japan (each holding 15.6 percent), and because it applies similar safeguards and assessment criteria. However, the ADB is also a very Asian creature, known for its soft, consensus-driven culture. Informally, its work-culture is often described as a combination of “Filipino friendliness and Japanese efficiency.” ADB headquarters are located in Manila; its president traditionally comes from Japan.

In a region prone to disputes and territorial conflicts, not least between China and Japan, these countries' consistent involvement in the ADB speaks to the pragmatic but politically significant roles that MDBs play in regional affairs. The ADB is one of the banks that signed the aforementioned MoU on cooperation with China on the BRI. However, it has taken care to moderate its approaches, with its president stating the ADB will cooperate with China when appropriate—while also cautioning against unsustainable BRI-related borrowing.⁴¹ The ADB president must walk a

⁴⁰ This includes a smaller proportion (about 200 million) in non-sovereign loans. See ADB (2017): “ADB Member Fact Sheet” (for the PRC). Available at: <https://www.adb.org/publications/peoples-republic-china-fact-sheet> (accessed November 2, 2018).

⁴¹ See online article, *Nikkei Asian Review* (May 3, 2018), <https://asia.nikkei.com/Economy/ADB-chief-warns-of-Belt-and-Road-debt-trap> (accessed October 30, 2018).

diplomatic tightrope, maintaining good relations with one member, China, without provoking reactions from other members, especially Japan and India. Another indication of ADB diplomacy is the fact that both Hong Kong and Taiwan are considered as distinct members: the latter, importantly, is referred to as “Taipei, China.” This represents both a diplomatic tradition and a compromise. Reportedly, Taiwan explored a similar arrangement with the AIIB in 2016, but in that case, China made it clear it would not accept an independent application, and asked Taiwan to follow Hong Kong’s example, applying through the Chinese Ministry of Finance. Naturally enough, Taiwan did not follow up that suggestion.⁴²

In terms of the size of its economy, China’s shares and formal voting power in the ADB are grossly disproportionate, far below Japan and barely above India (6.3 percent). However, China (unlike India) has its own executive director. For China, it seems that increasing its voting share in the ADB has never been a priority. In that respect, the Bretton Woods Institutions are far more important, at least symbolically. A Chinese national is included in the ADB leadership (as vice-president). Interestingly, many Chinese who have first worked in the ADB, most of them coming from the Ministry of Finance, have later moved on to work, professionally or as a representatives of China, in other international banks and financial institutions.

As with the WB, money and loans have provided good project financing, but the related expertise and technical support have been considered far more valuable. As an informal but relatively general rule, China itself contributes around half of the finances for ADB-sponsored projects in the country. The ADB is known for making notable contributions to capacity building, especially in rural and less-developed areas, and many programs have a clear social profile. However, like other MDB funding in China, environmentally sustainable development projects have become the mainstay, now constituting close to 60 percent of ADB lending to China. Currently, the ADB’s representation office in Beijing employs around 90 staff, 15 of whom are international.⁴³

As in the WB, the discussion around when countries, China in particular, should stop receiving loans has been very lively and is still ongoing. In fact, a few years ago, some ADB officials were expecting that lending to China would fade out by 2020. That expectation has vanished, and China has increased its borrowing in recent years. The much discussed “graduation

⁴² See *South China Morning Post* (April 12, 2016), <https://www.scmp.com/news/china/policies-politics/article/1935492/taiwan-says-it-will-not-join-beijing-led-aiib-after> (accessed October 30, 2018).

⁴³ Information updated in correspondence with ADB officials, December 11, 2018.

policy” is mentioned in the new ADB 2030 strategy, but without settling the issue: “ADB will continue to apply its current graduation policy, while also reviewing the effectiveness”—keeping the floor open for more debate.⁴⁴ Many ADB officials clearly want to build on the bank’s strong relationship with China and allow it to continue borrowing, while encouraging it to increase its contributions.⁴⁵ China’s own position is very clear. Beijing would not have worked to increase or maintain its borrowing levels unless it found ADB resources very useful for meeting its own development needs.

China is a donor to the Asian Development Fund, the ADB’s grant-giving mechanism for lower-income countries, and it co-sponsors several trust funds in the bank. Since 2005, China has been the main sponsor of a Poverty Reduction and Regional Cooperation Fund. In 2017, China renewed its commitment to support this Fund, pledging USD 50 million in addition to the 40 million already provided. These contributions pale in comparison with the Chinese borrowing, but they are increasing. Some ADB officials are talking about the possibility of establishing more nuanced loaning conditions, better attuned to the needs and capacities of middle-income countries. China is decidedly in favor of maintaining its borrower status in the bank.

The African, Inter-American and European Banks

China’s engagements with other, non-Asian, regional MDBs is an interesting and evolving, albeit little-studied, facet of Beijing’s foreign and development-oriented policy. Moreover, regional banks can tell us a lot about how international governing institutions work to build stronger relationship with China, as the country’s financial muscle grows and expands globally.

Several African countries have a special place in the history of Chinese foreign policy. China’s early inclusion (1985) in the African Development Bank (AfDB) reflects this link, although there were also strategic reasons for joining. Improving contracting opportunities for Chinese construction companies, in bank-sponsored projects, is among them.⁴⁶ In the AfDB, China is largely seen as a constructive but relatively inactive member. Some bank officials have expressed surprise that China has not expanded its role

⁴⁴ See ADB (2018): “Strategy 2030, available at: <https://www.adb.org/documents/strategy-2030-prosperous-inclusive-resilient-sustainable-asia-pacific> (accessed November 2, 2018).

⁴⁵ This view was reiterated in multiple discussions and forums with ADB officials and outside observers, specifically on November 20, 27 and 28, 2018.

⁴⁶ See Deborah Brautigam (2009): *The Dragon’s Gift: The Real Story of China in Africa*, Oxford University Press.

(its voting share is 1.186 percent), given the rapid growth of its overall activities on the African continent.⁴⁷ In the AfDB, China is in the same executive director group as Canada, South Korea and Kuwait. Canada serves as the group's permanent director, with the other countries rotating in advisory positions. In 2014, China donated USD 2 billion to a trust fund, Africa Growing Together, triggering concern among some members, who worried the bank might be lowering its standards. However, AfDB officials concur that the fund is well aligned with the regular bank safeguards, and are hoping to enlarge and prolong commitments beyond the initial 10-year period.⁴⁸ This fund is not to be confused with the China–Africa Development Fund, which is not related to the AfDB.

With the exception of the ADB, which China joined in 1986, it took several years before China formally entered another regional MDB. In 2009, however, it became a member of the Inter-American Development Bank (IDB). Although its voting share is miniscule (0.004), the fact of its membership reflects China's relatively recent but rapidly expanding economic ties within the Latin American region. Many members, as well as the IDB leadership, have been eager to enroll China as a member. A clear indication of this enthusiasm was the bank's decision to hold the IDB 2019 annual (spring) meeting in China—in Chengdu, the capital of Sichuan province. The IDB has a tradition of organizing meetings outside the region, but the choice of China for 2019 suddenly became highly controversial after Donald Trump became US President. In late 2017, US Under Secretary for International Affairs, David Malpass, wrote to the IDB leadership, raising critical questions about the planned meeting and the IDB's role in promoting China–Latin America affairs.⁴⁹

The 2019 IDB annual meeting is still going to be held in China, although some activities, like the celebration of the bank's 60-year anniversary, are being scaled down and moved elsewhere. Nevertheless, IDB officials, not least its president, remain enthusiastic about the prospects of expanding collaboration with China.⁵⁰ In 2013, China provided USD 2 billion for the IDB Latin America and the Caribbean Co-financing Fund, which supports public- and private-sector development projects. China has previously

⁴⁷ These points were made by AfDB officials in telephone conversations and email correspondence, December 6 and 7, 2018.

⁴⁸ See the bank's website, <https://www.afdb.org/en/countries/non-regional-member-countries/china/> (accessed November 20, 2018).

⁴⁹ Randy Woods and Andrew Mayeda (January 4, 2018): "Trump Steps Up Efforts to Check China Influence in Latin America." <https://www.bloomberg.com/news/articles/2018-01-04/trump-steps-up-efforts-to-check-china-influence-in-latin-america> (accessed November 20, 2018).

⁵⁰ This was noted in three separate interviews with IDB officials and outside observers, November 27 and 28, 2018.

contributed smaller sums to other investment and equity trust funds within the IDB and its affiliated institutions.⁵¹ China is represented in the IDB board of directors as part of a larger group of non-regional members—Belgium, Germany, Israel, Italy, the Netherlands, Switzerland ... and China.

The most recent enlargement of China's regional MDB membership came in 2016, when it joined the European Bank for Reconstruction and Development (EBRD), obtaining a small share (0.096 of the total). The mutual attraction between the EBRD and China has been nurtured for more than a decade, but for many years, EBRD regulations, specifically its charter "Agreement" document, complicated the courtship. Article 1 stipulates that the EBRD is to support countries that are committed to the "principles of multiparty democracy". It is unusual for MDBs to declare political principles so clearly, and the reference to *multiparty* democracy stands out, not least when compared with the statutes of many other international organizations. However, the EBRD has adopted a more pragmatic approach to democratization over the last decade. Addressing this from a very different position, and arguably being more used to pragmatic thinking around international engagements, China has also decided to work in line with the EBRD principles; in any case, they are not applicable to China, where the bank has no intention of investing.⁵²

Aside from political complications, the EBRD has turned proactive when it comes to China. This is related both to expanding Chinese activities in Central Asia, where the EBRD is deeply involved, and growing Chinese investments in European markets. Private-sector development is a key EBRD priority, and Chinese companies are active in many of the countries and sectors where the bank invests.⁵³ Notably, it was one of the six banks that signed the MoU on BRI, and it has recently established an office presence in Beijing, located within the AIIB. One EBRD official is formally seconded (to the AIIB) to work on projects involving Chinese finances and actors. Within the EBRD, China is in the same executive director group as the Netherlands, Mongolia, Armenia and FYR Macedonia.

China has varying motives for stepping up its regional MDB involvement. For one thing, China is not alone in any of these banks, the USA and many European countries have previously joined them all. China's prioritization

⁵¹ For an overview, see <https://www.iadb.org/en/news/news-releases/2008-10-23/china-to-join-the-inter-american-development-bank%2C4828.html> (accessed November 28, 2018).

⁵² This point was made in an interview with an EBRD official 27 November 2018, corroborated in subsequent email correspondence with other EBRD officials.

⁵³ See <https://www.ebrd.com/news/2018/ebrd-to-step-up-cooperation-with-china-and-eu-on-central-asia-investment-.html> (accessed November 20, 2018).

of these institutions reflects its enlarged international presence and role, and indicates how MDBs are recognized as useful for regional and international cooperation. Moreover, in all instances, China's inclusion has come against the backdrop of active efforts made by these banks, and many of their members, to engage China. In regional MDBs, China can interact with regional and many non-regional country representatives, hearing about, learning from, and contributing to discussions on development issues and business opportunities.

It is the central bank, the People's Bank of China that deals with the non-Asian regional banks as well as the IMF. For the other MDBs, the Chinese Ministry of Finance is formally responsible and appoints most staff. However, the Ministry of Foreign Affairs and the National Development and Reform Commission, as well as other specialized government and Communist Party institutions, are involved in decision-making, coordination, and planning. As the economy grows and Chinese activities expand globally, China will increase its participation in regional MDBs. How China organizes its representation, and which interests and initiatives it chooses to promote, are factors to consider as regards the future evolution of these institutions, which now include all the major regional MDBs.

Concluding remarks

MDBs offer a window onto shifting trends in international development and governance institutions, and China provides a front-row view here. Development banking is an area where China has gained much from working with international institutions—and where it feels confident contributing to them. The attraction is mutual. Increasingly, MDBs are seeking out opportunities to engage with China, as is the IMF; and several MDBs are stretching their graduation policies to make this work.

China is working to increase its presence in international organizations. It will expand its voting shares in the WB and the IMF, and has secured more leadership positions for Chinese nationals, as well as supporting more Chinese talents in professional positions. However, there is no indication that China is eager to move to the top of the WB or the IMF, in terms of voting rights or responsibilities. It has been taking a gradual approach in these institutions, increasing its influence without appearing domineering. At the same time, China has promoted simplified lending practices, and is spurring the initiation of new institutions. It has invested serious resources and prestige into the AIIB and the NDB. Impressed by the former, still hopeful about the latter, Beijing views these banks as paving the way for more international institutions to be headquartered in China in the future.

China's role in the non-Asian regional MDBs is becoming noticeable. Not so much in terms of voting shares, which remain limited, but as regards trust funds and other funding vehicles. Indeed, many MDBs, regional and non-regional, have proven markedly adept at dancing together with China, even to the tune of its BRI agenda, without upsetting their other members enough to trigger protest.

In terms of the money involved, the MDBs are small actors in the greater realm of international finance. Compared to China's own institutions, which are oriented to domestic finance and development, even the WB's financial muscle looks weak. However, the MDBs remain key arenas for discussion, agenda setting, and specification of safeguards and sustainability standards. China's global economic footprint will grow larger and deeper. Its experiences and priorities are already shaping the world. The MDBs provide pragmatic, politically significant, opportunities for actors to engage with, learn from, and challenge each other.



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About the author:

Hans Jørgen Gåsemyr (PhD) is a senior researcher at the Norwegian Institute of International Affairs (NUPI) and a postdoctoral fellow at the Department of Comparative Politics, University of Bergen. Gåsemyr's background includes extensive social science and Chinese language and area studies from Norwegian and Chinese universities.

NUPI

Norwegian Institute of International Affairs
C.J. Hambros plass 2D
PB 7024 St. Olavs Plass, 0130 OSLO, Norway
www.nupi.no | post@nupi.no