

China and Development Lending in the Asia-Pacific

Hongying Wang

University of Waterloo, Canada, and

Centre for International Governance Innovation

Outline

- Chinese approach to development finance
 - The case of One Belt One Road (OBOR)
- China-led multilateral development banks (MDBs)
 - Asian Infrastructure Bank (AIIB)
 - New Development Bank (NDB)
 - Relationship between with traditional MDBs
- Potential challenges

Chinese Approach to Development Finance

- Mutual benefit
 - Not only ODA types (grants, interest-free loans, concessional loans), but also export credit, non-concessional loans including resource-backed loans, many aiming to promote China's "going out" strategy
- "No-strings attached"
 - "China is willing to share its development experience with all the rest of the world, but we will not intervene into other nation's internal affairs, export our social system and development model, nor force others to accept them."
(President Xi Jinping, May 2017)
- Attractive to many but potentially in conflict with traditional development finance

One Belt One Road

- Proposed by Xi Jinping in 2013
 - Focus on infrastructure
 - 65 countries to host OBOR projects
- Lots of money
 - Silk Road Fund (\$40 billion)
 - State-owned banks OBOR projects (\$82 billion 2015)
 - Additional funds through Silk Road Fund, China Development Bank, Export and Import Bank of China (\$113 billion promised in 2017)
 - Some of AIIB and NDB investment



AIIB

- Launched in 2016 (\$100 billion)
- Investment made or approved in 2016 (\$1.7 billion)
 - Power project in Bangladesh (\$165 million)
 - Slum upgrading in Indonesia (\$216.5 million)
 - Road improvement in Tajikistan (\$27.5 million)
 - Motorway in Pakistan (\$100 million)
 - Hydropower project in Pakistan (\$300 million)
 - Power plant in Myanmar (\$20 million)
 - Maritime infrastructure in Oman (\$301 million)
 - Trans-Anatolian gas pipeline (\$600 million)

NDB

- Launched in 2015 (\$50 billion)
- Investment in 2016 (\$1.5 billion)
 - Renewable energy in China: \$379 million
 - Renewable energy in Russia: \$100 million
 - Roads and renewable energy in India: \$700 million
 - Renewable energy in Brazil: \$300 million
 - Renewable energy in S. Africa: \$180 million

Complementing Traditional MDBs

- Infrastructure financing gap
 - Keeping Asian development momentum requires \$1.7 trillion/year in infrastructure (ADB estimate)
 - Actual investment: \$881 billion/year
 - Gap: more than \$800 billion /year
- Limited capacity and interest (until recently) of traditional MDBs
 - MDBs contribute 2.5% of infrastructure investment in developing Asia (ADB estimate)

Cooperating with Other MDBs

- Consensus among emerging and established powers
 - Infrastructure critical for global economic growth and integration
 - Importance of public private partnerships
 - New initiatives: G20 Global Infrastructure Initiative/Hub, World Bank's Global Infrastructure Facility, regional infrastructure programs...
- Collaboration framework between new and old MDBs
 - AIIB and NDB's MOUs and agreements with ADB and World Bank
- Co-financing projects
 - Most of AIIB's initial projects
 - Possibility for NDB later

Potential Challenges

- Environmental and social sustainability
 - No strings attached and limited external pressure
 - Mega infrastructure projects in ecologically sensitive areas not carefully evaluated for environmental impact
 - Lack of transparency and respect of rights in countries governed by authoritarian regimes
- Financial sustainability
 - China's own infrastructure investment often involves significant waste (Oxford U. study)
 - \$1.2 billion seaport in Sri Lanka (financial loss → Chinese takeover → local protest)
 - OBOR investment down in 2016 and 2017 (*Financial Times*)

Thank you!