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Research Report

China in the multilateral development banks: Evolving strategies of a new power

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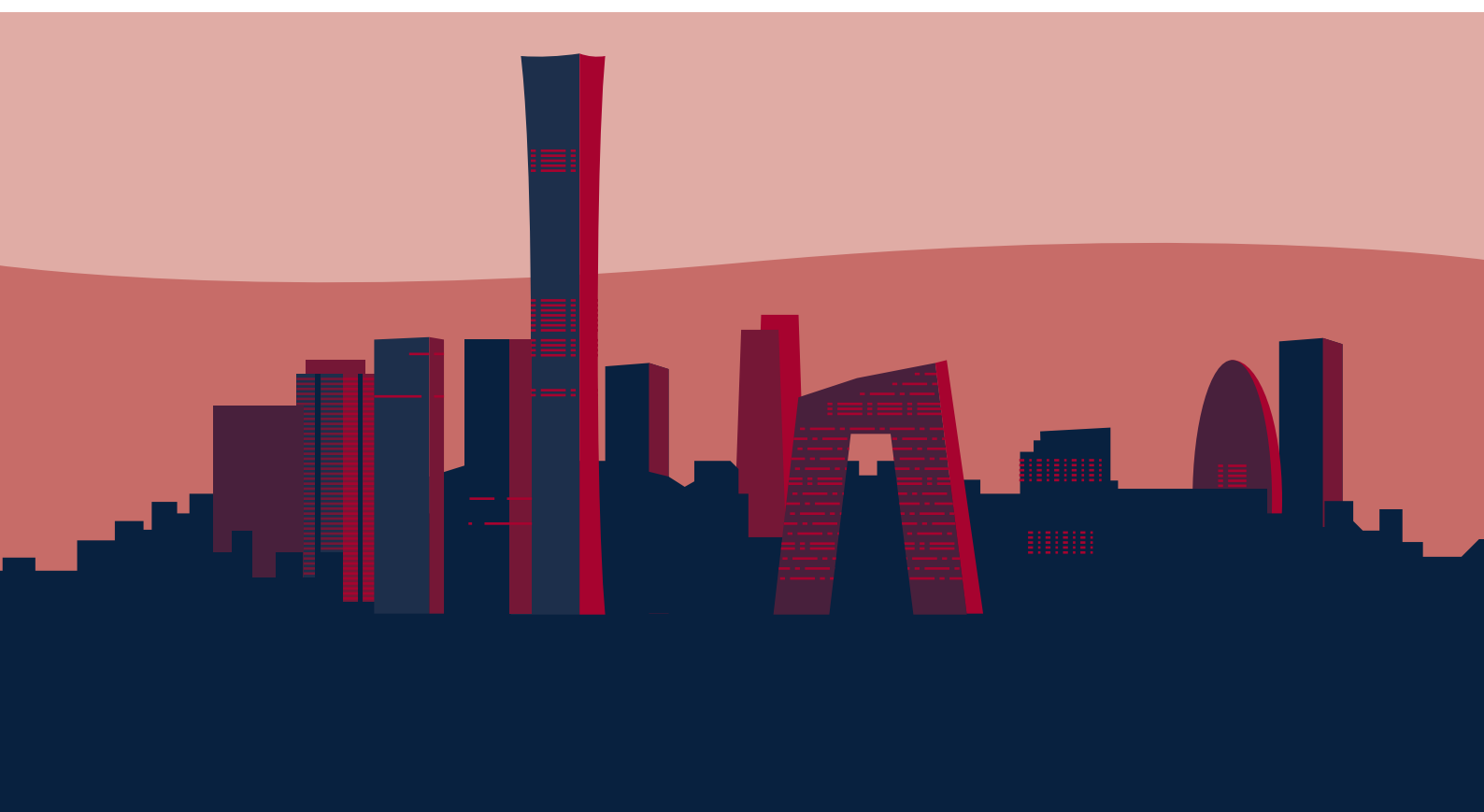
Report

China in the multilateral development banks

Evolving strategies of a new power

Chris Humphrey and Yunnan Chen

September 2021



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Acronyms/Glossary

ADB	Asian Development Bank
AfDB	African Development Bank
Afreximbank	African Export-Import Bank
AGTF	Africa Growing Together Fund
AIIB	Asian Infrastructure Investment Bank
BOAD	West African Development Bank (Banque Ouest Africaine du Développement)
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China, South Africa
CAF	Development Bank of Latin America (Corporación Andina de Fomento)
Caribank	Caribbean Development Bank
CDB	China Development Bank
China Eximbank	Export-Import Bank of China
CIDCA	China International Development Cooperation Agency
EBRD	European Bank for Reconstruction and Development
HKMA	Hong Kong Monetary Authority
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
MCDF	Multilateral Cooperation Center for Development Finance
MDB	multilateral development bank
MOF	Ministry of Finance (of China)
NDB	New Development Bank
OECD-DAC	Organisation for Economic Co-operation and Development – Development Assistance Committee
PBOC	People’s Bank of China
PRC	People’s Republic of China
RMB	renminbi
SAFE	State Administration of Foreign Exchange
TDB	Trade and Development Bank

Executive summary

China's role in the multilateral development bank (MDB) architecture is an often overlooked but revealing facet of the country's growing importance in development finance and global governance. As China shifts from a borrower to a creditor, MDBs represent a valuable tool to further its geopolitical agenda, promote its own distinct views on development and contribute to addressing global economic and social challenges. To increase its voice and influence, China has employed pragmatic and evolving strategies, including: creating co-financing funds in large MDBs; building a diverse portfolio of relationships with smaller MDBs around the world; and establishing two new MDBs.

Unable to increase its capital shareholding in the World Bank and major regional MDBs due to institutional and geopolitical constraints, China has instead created a series of multibillion-dollar co-financing funds. Though these funds represent a second-best option for increasing the financial capacity of MDBs, this innovative strategy enables China to utilise some of its significant foreign exchange reserves in a way that is not only politically useful in gaining governance influence at the margins, but is also financially secure.

Beyond the MDBs of the 'Global North', China has a membership portfolio in several smaller, borrower-owned MDBs in Africa and the Americas, broader than any other Organisation for Economic Co-operation and Development (OECD) donor or major power. Membership in these banks, as well as official lines of credit to other MDBs in eastern Europe and western Asia, support China's diplomatic and commercial engagement in these regions. While its financial

contributions are relatively small, these MDBs serve as useful platforms for China to strengthen its outreach and burnish its credentials as a 'southern' donor supporting other developing countries.

China's greater confidence on the global stage has culminated in the creation of two new MDBs: the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). Both have a strong focus on infrastructure and streamlined operational structure, but they also have important differences. AIIB is similar in many ways to the existing Bretton Woods institutions, with nearly 100 country members including five of the G7 nations, but with China clearly in a leadership position. NDB represents instead an institutionalisation of South-South cooperation, with China on equal footing (formally at least) with other BRICS country shareholders.

Taken together, these three strategies show China building its credibility as a responsible and cooperative power within the existing 'Bretton Woods'-era MDBs, while also supporting the creation and growth of MDBs that better reflect its own views and interests on development. As a shareholder, China has contrasted itself to the United States by avoiding open confrontation and categorical demands, even in MDBs where it has substantial governance power. It has emphasised the leading role of the public sector in development and has pushed MDBs to ramp up their investments in physical infrastructure and reduce their role in imposing policy reforms. China has consistently sought to increase MDB financial strength and reduce bureaucracy in project approval and oversight.

A mix of motivations drives China's MDB membership, including geopolitical and economic self-interest as well as a genuine belief that MDBs are valuable tools to promote international development. China has utilised membership in MDBs to build its profile as a responsible global power, as channels for diplomacy in different regions, as outlets for exporting capital and foreign exchange reserves, and as venues to build knowledge and experience on global best practices.

MDBs represent an entry point to engage with China on global challenges such as economic growth, Covid-19 recovery, sustainability and climate change mitigation. Despite growing international and bilateral tensions in recent years, China's commitment and participation in MDBs have continued, demonstrating their utility and legitimacy as a forum for cooperation in areas of mutual interest.

1 Introduction

In recent years, China has become one of the largest providers of development finance in the world. While much has been written on its bilateral activities via state-directed official lending, less attention has been paid to the multilateral dimension of China's outward development finance, as the country gradually shifts from being a borrower member of the MDBs to a non-borrower. This paper is the first comprehensive survey to focus on this emerging role.

From first joining the World Bank in 1980 as the People's Republic of China (PRC),¹ China's presence within the MDBs has expanded considerably. Despite its large and growing geopolitical and economic importance, China's voice and voting power at the World Bank and major regional MDBs remain modest in relative terms, due to the zero-sum nature of MDB shareholding and the unwillingness of current large shareholders to accommodate China's ambitions.

In the face of these obstacles, China has pursued an eclectic set of strategies to increase its presence within and across MDBs. This paper focuses on three aspects: (1) channelling substantial financial resources to major MDBs outside of normal core share capital; (2) taking a shareholding stake in and offering credit lines to smaller, borrower-led MDBs; and (3) helping found two new MDBs, the AIIB and the NDB.

Taken together, these initiatives reveal a pragmatic and somewhat ad hoc approach to China's relationships with existing and new MDBs – one that continues to evolve in response to changing circumstances. Much as it did during its domestic economic reforms and growth under the leadership of Deng Xiaoping in the 1980s and 1990s (Ang, 2016), the Chinese government appears to be adapting to challenges and making the best of opportunities as they arise within a broad strategic direction, rather than following a precise plan.

One point is clear: the Chinese government – or at least factions within it – see considerable value in working through multilateral institutions, particularly MDBs. China has huge bilateral institutions engaged in development finance, notably the Export-Import Bank of China (China Eximbank) and China Development Bank (CDB). The fact that Chinese authorities are expending considerable financial and political capital to participate in MDBs, and to create new ones, demonstrates support for multilateral-based cooperation with other nations to address global challenges and that participation in MDBs serve China's national interests. At a time when many countries view China's presence on the global stage with deep suspicion or even outright hostility, this is a positive sign and an entry point for engagement.

¹ China originally joined the World Bank in 1945; however, after the Chinese Civil War, the World Bank and international bodies recognised the Republic of China (Taiwan) as a member, until it was replaced by the PRC in 1980. The United Nations recognised the PRC in 1971, replacing the Republic of China as a member.

The aims of this paper are threefold:

- Outline how China is working with MDBs via shareholding and non-core financial contributions.
- Explore the interests and drivers behind this engagement.
- Consider the implications of China's activities for the governance and operations of different MDBs.

To address these, we draw on new research and on stakeholder interviews (see Appendix 1) with 10 former and current personnel of several MDBs and two China-based policy scholars. The interviews took place between January and April 2021. We draw from and build

upon existing literature on China's multilateral engagement and on the AIIB and NDB, and utilise primary sources and data from MDB annual reports and Chinese official sources.

The paper is structured as follows. Chapter 2 gives an overview of and background to China's development finance and participation in MDBs. Chapter 3 examines the contribution of Chinese shareholders in major MDBs, particularly the establishment of three large co-financing funds. Chapter 4 looks at China's shareholding and contributions to sub-regional MDBs in Africa and Latin America. Chapter 5 focuses on the newly created AIIB and NDB. Chapter 6 concludes with a discussion of the drivers guiding China's MDB participation and implications for policy.

2 China's development finance in context

China's growing overseas development finance has made it one of the largest bilateral creditors to developing countries, particularly in sub-Saharan Africa, where it matches the scale of World Bank lending in the region (Humphrey and Michaelowa, 2019). This chapter gives an overview of trends in China's overseas development finance and the context of China's multilateral participation.

2.1 China's bilateral overseas development finance

For many decades China has been an aid donor to developing countries under the framework of 'South-South cooperation', but much of these flows do not constitute 'aid' in the official development assistance (ODA) sense. Despite the overtures of the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD-DAC), China has resisted joining other than as a partner, and insists on having the status of developing country, despite its growing economic weight in the world economy. Aid, concessional finance and other financial flows have been combined and used in a deliberate fashion to achieve political and economic goals, emphasising 'mutual benefit' with partners rather than the donor-recipient relationship typical of traditional donors (Bräutigam, 2011; Fuchs and Rudyak, 2019).

Much of the aid and development cooperation activities were managed by the Ministry of Commerce prior to 2016, and subsequently the China International Development Cooperation Agency (CIDCA), but the greater part of overseas finance is from China Eximbank and CDB. These policy banks have become two of the largest

bilateral creditors in Africa and Latin America, both regions where China has been a major trade partner, particularly in resource commodities (Bräutigam, 2009; Bräutigam and Gallagher, 2014; Jenkins, 2019). However, the geographies of lending are shifting. The expansion of the BRI after 2013 has seen greater finance towards Central Asia and the Caucasus, and to finance port and transport infrastructure in South and Southeast Asia (Yu, 2017; Benabdallah, 2018).

This architecture of bilateral and multilateral finance has been termed a 'coordinated credit space', where Chinese banks and state-owned enterprises often act in concert to fund and construct overseas projects, thereby supporting the 'going out' of Chinese enterprises, goods and services (Chin and Gallagher, 2019). This trend accelerated with the BRI. Academic efforts to track China's often opaque overseas lending find a distinct arc of lending patterns over time, peaking in the early 2010s (Horn, Trebesch and Reinhart, 2019; CARI, 2020; GDPC, 2020). However, after 2017, bilateral lending plateaus, then declines steeply, particularly lending from official policy banks (Gallagher and Ray, 2020).

This decline may be due in part to geopolitical factors in the rivalry between the United States and China after 2016, as well as an emerging backlash around the BRI and debt distress in borrowing countries in recent years (Kynge and Wheatley, 2020; Tanjangco et al., 2020). Domestic factors have also been salient: after the stock market crisis in 2015, China's foreign exchange reserves saw a record drop of \$512 billion in 2015 as the PBOC, China's central bank, tried to stabilise the renminbi (RMB) (Reuters, 2016). While the

economy recovered from the crash relatively quickly, the crisis has tightened the management of foreign exchange reserves, and since 2017 a broader process of deleveraging has been ongoing in the domestic financial system.² This may have contributed to the broader movement to reduce dependence on the dollar and to push the RMB as an international currency, which saw a major step in 2016 with the addition of the RMB to the International Monetary Fund (IMF) special drawing rights (SDR) currency basket.

Despite this apparent pullback in lending, China's discourse around its global development role in high-level documents and speeches has become, if anything, more assertive. The most recent 2021 White Paper on international development cooperation repeatedly emphasises the theme of 'global community' and China's contribution to global governance, exemplified by its support for the United Nations and multilateral system, and leadership in climate in its pledges of carbon neutrality by 2060 (Chen, Willitts-King and Calabrese, 2021). The 2021 White Paper exhaustively details China's cumulative funding to multilateral organisations, including several billion dollars in co-financing funds (discussed in Chapter 3) as well as the creation of new, China-initiated MDBs and multilateral platforms (see Chapter 5) (Calabrese and Chen, 2020; State Council, 2021).

2.2 China's growing multilateral engagement

In parallel with its economic rise, China's participation in multilateral institutions has expanded. After joining the United Nations in 1971, China joined the IMF and the World Bank in 1980. It was another 20 years before it gained entry to

the World Trade Organization in 2001, which was arguably a critical juncture for the acceleration of China's global trade and its growing role as a development financier. Within the MDB space, China's role has been evolving and eclectic. It has been a borrower from major MDBs, but is increasingly also a source of funding, and it has taken a proactive and strategic approach, both working within existing institutions and initiating new ones. Figure 1 shows the timeline for China's membership of different MDBs as well as for the establishment of MDB co-financing funds discussed in the next chapter.

This increasing engagement with multilateral institutions, and China's identity within them, is filled with tensions. There is a longstanding desire within Chinese political ideology to assume a 'rightful' place as a global power, given China's economic weight, and it has pushed for greater 'voice' within the World Bank and IMF via increased shareholding. At the same time, China continues to borrow from the World Bank and Asian Development Bank (ADB), it insists on its status as 'the world's largest developing country' at the World Trade Organization and it pushes 'common but differentiated responsibilities' between developed and developing countries in addressing climate change (FMPRC, 2021). China positions itself as a leader of the developing world and has resisted being enfolded into rich-country groupings, such as the OECD and the Paris Club, despite its increasingly prominent role as a bilateral official creditor.

China's hybrid status as a borrower and creditor is reflected in the fragmentation of its shareholding agencies within the MDBs. In banks where China is a major borrower and in the newly co-created Chinese MDBs, the Ministry of Finance (MOF)

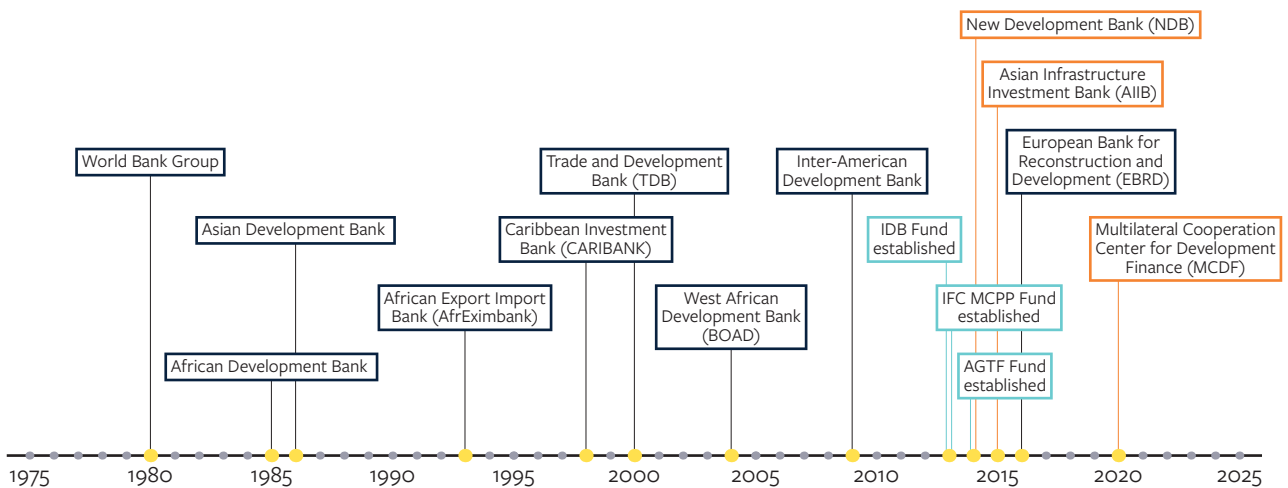
2 Interview 02-03-2021.

is the shareholder. In the non-Asian regional banks (and IMF), China’s role as a provider of credit is reflected in the leadership of the PBOC. While it is not uncommon for countries to be represented in major MDBs by their central bank, in the Chinese case it reflects a divide between China’s identity as borrower and creditor within these institutions – as well as where the financing comes from. The PBOC controls China’s foreign exchange reserves, and thus holds significantly more financial power than the MOF. China’s newly created aid agency, CIDCA, manages only the implementation of bilateral finance and is not involved in multilateral finance.

On the part of the US, Europe and other industrialised nations, China’s rise in the multilateral space has been a point of tension.

While Western powers have sought to socialise China into multilateral platforms and to become a more ‘responsible’ global power, they have also been reluctant to give up their dominant shareholding position in the IMF and major MDBs. Following the 2008 global financial crisis, however, the significance of China’s role in addressing global economic, social and environmental governance issues could no longer be ignored. This motivated the elevation in importance of the G20 as a forum, and the partial acquiescence to greater shareholding for China at the IMF and World Bank. National self-interest also played a role, as many Western economies sought to deepen trade and investment relations with China in this period, and have at times supported a greater Chinese role in global governance to strengthen their own bilateral relations.³

Figure 1 Timeline of China’s membership in MDBs



Note: Navy indicates year of membership of MDB; blue indicates creation of major co-financing fund; orange indicates creation of China-led new MDB institutions and platforms. MCPP, Managed Co-Lending Portfolio Program.

Source: Authors’ elaboration

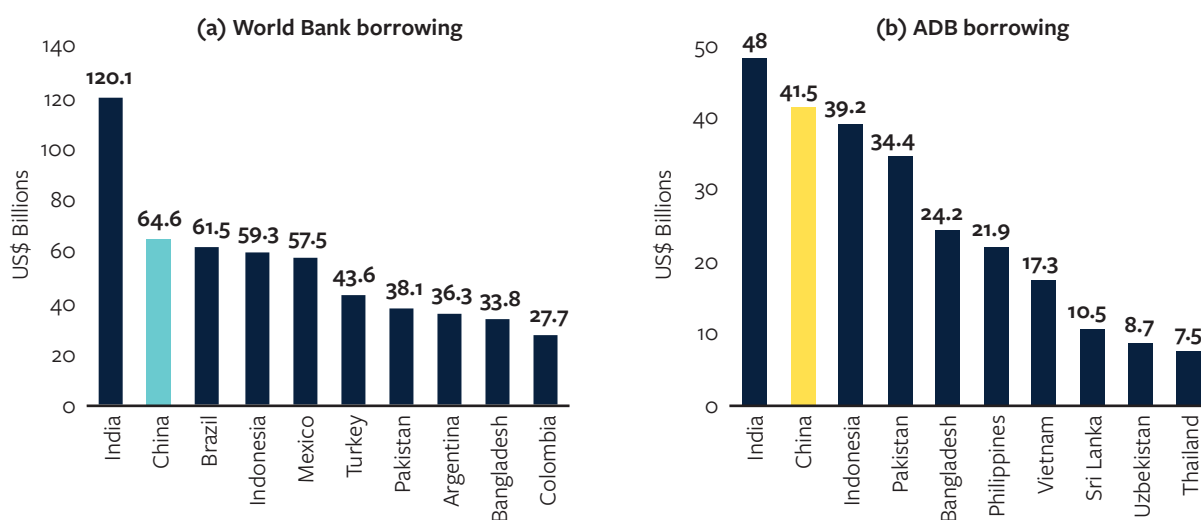
3 One example was the United Kingdom’s support for the AIIB in advance of a unified European Union (EU) position, which angered several EU countries and was perceived as the UK attempting to demonstrate friendship with China to benefit its own economic interests.

3 China and the major MDBs

China's engagement with MDBs began in the early 1980s, just as the country was launching its economic reforms under Deng Xiaoping. As such, the country's primary focus was obtaining investment and expertise from the World Bank (joined 1980) and the Asian Development Bank (ADB) (joined 1986) to support its reform programme. Despite joining much later than most other major developing nations, China is the second-largest cumulative borrower from the World Bank (\$64.6 billion total through 2020, in nominal terms) and the ADB (\$41.5 billion through 2019) (Figure 2). Even now, after its spectacular economic growth trajectory, China continues to value lending and technical assistance services from these two MDBs, although its access to World Bank financing is being curtailed as part of the 2018 capital increase package.⁴

Even as far back as the 1980s, China's policy-makers viewed the World Bank and major regional MDBs not simply for the developmental goals of gaining finance and technical assistance, but also for furthering its geopolitical and economic goals. China joined the African Development Bank (AfDB) in 1985, shortly after the bank opened up membership to non-regional countries in 1982 and a year earlier than it joined the ADB, and its interests were obviously not in obtaining financing. China subsequently joined several smaller MDBs (see Chapter 4 for details), the Inter-American Development Bank (IDB) in 2009 and, most recently, the European Bank for Reconstruction and Development (EBRD) in 2015. Membership in IDB and EBRD was likely driven primarily by China's substantial and rising bilateral financing in Latin America and Central Asia, as well as an opportunity

Figure 2 Cumulative borrowing from the World Bank and ADB, through 2020, selected countries



Note: Includes both non-concessional and concessional lending. In cumulative nominal US dollars at the year of approval. Source: World Bank *Annual Report 2020*, 'Lending Data' appendix; 'Where We Work' country pages on the ADB's website (www.adb.org)

⁴ See World Bank (2020a) for details on World Bank lending to China since 1981, Devex (2018) for how changes in the World Bank's lending policy have impacted China and other middle-income countries, and Gåsemyr (2018) for a review of China's patterns of borrowing from the World Bank and the ADB.

to add two more major MDBs to its multilateral portfolio. As well, the leadership of IDB and EBRD were eager to have China join in light of the country's increasing economic importance in their respective regions (Gåsemyr, 2018).

3.1 China's representation and voting power at the World Bank and regional MDBs

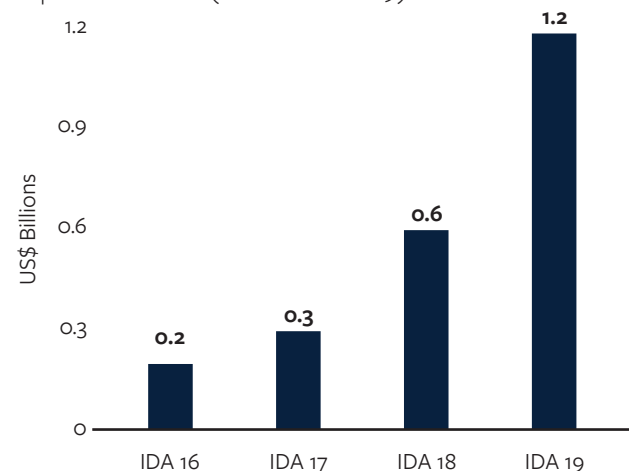
Although China remained a relatively low-key shareholder in the major MDBs for most of its membership, in recent years it has become more assertive in seeking to increase its own voting power as well as that of other 'developing and transition countries', especially at the World Bank. In 2003, China's representative at World Bank boards of governors meetings – Jin Liqun, now president of the AIIB – noted that 'The weight of developing countries in the world economy has increased substantially', adding that 'This development should be properly reflected through the IMF quota and the Bank's share allocation' (World Bank, 2003). This topic was raised in almost every Chinese governor speech at the World Bank's Development Committee autumn and spring meetings in the following years, and China acted as a leader among developing countries in pushing for reform at the World Bank.

In 2003, World Bank shareholders began a torturous negotiation to reallocate some voting power to countries clearly under-represented – including notably China (Vestergaard, 2011; Chin, 2015). It was not until 2010, however, that China's voting share finally increased, from 2.8% to 4.4%. Further negotiations around the 2018 capital increase boosted China's share to 6.1% (World Bank, 2020b). The key reason why China remains under-represented in World Bank voting is that the formula used to allocate voting rights is weighted toward GDP in nominal terms and reflects donor

contributions to the World Bank's International Development Association (IDA) concessional lending window – both of which favour major non-borrower shareholders. China's voting power in the International Bank for Reconstruction and Development (IBRD) is below what the shareholding formula would indicate (ibid.: 4) due to the difficulty of convincing other over-represented countries to relinquish some of their shares. China has even less voting power at the International Finance Corporation (IFC) (2.3% in 2020) (ibid.: 7). However, China does control a single chair for itself at the World Bank and IFC Board of Directors, giving it a permanent voice in debates, unlike most other developing countries.

As part of the World Bank voting realignment negotiations, non-borrower shareholders (particularly the US) have repeatedly pushed to reduce China's access to IBRD lending and to increase its contributions to the IDA. Despite its huge foreign exchange reserves, China has contributed to the IDA only reluctantly and at a low (albeit increasing) level (Figure 3). According to IDA's June 2020 financial statement, China had contributed only \$1.1 billion to the IDA (0.4% of total), less than half of other countries also

Figure 3 Chinese contributions to IDA replenishments (IDA16 to IDA19)



Source: World Bank IDA replenishment documents

classified by IDA as developing, such as South Korea (\$2.3 billion) and Saudi Arabia (\$2.8 billion). This may reflect, in part, China wanting to present itself still as a developing country, as well as an instinctive mistrust of the poverty and social focus of the IDA, which contrasts with China's 'win-win' model of development cooperation that focuses on economic growth, infrastructure and 'mutual benefit' investment. But the fact that IDA contributions form part of the IBRD shareholding formula has begun to shift this attitude. China made its first minimal contribution (17.6 million SDR) in 2008 as part of IDA15, followed a month later by the appointment of Justin Yifu Lin as Chief Economist – the highest position in World Bank management to be held by a Chinese national to that point (Heep, 2014: 129).⁵

China's shareholding and voting power at other major regional MDBs is even smaller than at the World Bank (Table 1). At the EBRD and the IDB, China's voting share is a minuscule 0.1% and 0.004%, respectively, and is only 1.74% at the AfDB, despite 35 years of membership and China's massive bilateral financing to the African continent in recent decades. At all three MDBs, the prospects of China increasing its shareholding are essentially non-existent, due to the reluctance of other shareholders (non-borrowers and borrowers alike) to give up their existing shares. More shares for China 'has been a non-starter' at the IDB, according to a former senior management staffer, noting that it took 10 years for the US to agree to China's membership

at all.⁶ Similarly, a former senior AfDB manager said that China wrote a formal request for a 'substantial increase in shareholding' not long after the global financial crisis, but was unsuccessful. 'To increase China's share, that means that the voting percentage of other non-regionals would have to decrease, and none of the non-regionals had appetite to reduce their voting power'.⁷

In all three MDBs, China is a member of a board of directors' 'constituency' along with several other countries, but is never in the position of actually assuming leadership of the constituency and therefore Chinese officials are not present at the board meetings. The IDB added an extra advisor to board constituencies just to ensure that China had a permanent presence in headquarters as an advisor. Staff representation by Chinese nationals is almost non-existent: for example, the AfDB had only a single Chinese staffer in early 2021. China made contributions to special funds at the EBRD and IDB when it joined as a sort of 'price of admission', including a total of \$350 million to several different IDB funds⁸ and €44 million to the EBRD's Chernobyl Fund.⁹ At the AfDB, China has contributed to successive rounds of the African Development Fund (AfDF) concessional window for the poorest countries, but, as at the World Bank's IDA, in relatively low amounts – a total of \$840 million from 1985 to 2019, about 2% of AfDF contributions. As of December 2019, China was 14th out of 30 contributors to the AfDF, behind Finland.

5 As of spring 2021, Chinese nationals Shaolin Yang and Jingdong Hua were, respectively, World Bank Managing Director and Chief Administrator, and World Bank Vice President and Treasurer.

6 Interview 17-02-2021.

7 Interview 22-01-2021.

8 \$125 million to the IDB's concessional lending window for the poorest countries, \$75 million to a multi-donor trust fund on institutional capacity, \$75 million to a private sector trust fund for small and medium-sized enterprises, and \$75 million to the Multilateral Investment Fund (IDB, 2009).

9 Interview 18-01-2021.

Table 1 Share of world GDP (nominal) and MDB shareholding, selected countries

	Share of world GDP (%)	MDB shareholding (%)					
		IBRD	IFC	ADB	AfDB	EBRD	IDB
US	24.4	15.78	20.99	12.75	4.40	10.09	30.01
China	16.3	4.72	2.30	5.44	1.74	0.37	0.004
Japan	5.8	7.66	6.01	12.75	7.89	8.60	5.00
Germany	4.4	4.20	4.77	3.75	5.97	8.60	1.90
India	3.3	3.04	3.82	5.35	0.42	0.03	–
UK	3.2	3.89	4.48	1.92	2.58	8.60	0.96
France	3.1	3.89	4.48	2.15	2.50	8.60	1.90
Brazil	2.1	2.15	2.08	–	0.23	–	11.35
Mexico	1.5	1.62	1.15	–	–	–	7.30
South Africa	0.5	1.073	0.67	–	3.36	–	–

Source: GDP calculated in nominal terms from World Bank data for 2019; MDB shareholding from 2020 financial statements

China is in a somewhat different position at the ADB. Its voting power was 5.44% as of end-2020 – slightly above India, although far below the two dominant shareholders, the US and Japan (12.75% each). Despite the obvious importance of China in Asia, ‘it seems that increasing its voting share in the ADB has never been a priority’ compared to the higher-profile World Bank, according to Gåsemeyr (2018: 23). China may have decided it was not worth challenging Japan’s traditional leadership role at the ADB, given their complex relationship in many areas, and whatever concessions China might obtain, Japan and the US would never relinquish their dominance. The creation of the AIIB – in many ways a direct competitor to the ADB – may have been China’s answer to its minority status at the ADB. China has its own permanent chair on the ADB’s board of directors (unlike India), and has for years been represented in senior management and staff.¹⁰

China has contributed to several ADB trust funds, including a poverty-reduction fund that China created in 2005 (\$90 million). It has donated a total of only \$183 million to the concessional ADF as of December 2020 – a tiny 0.4% of the total, 18th out of 34 countries and only a third of South Korea’s contributions.

3.2 Co-financing funds: a creative technique for China to build influence at the major MDBs

By the start of the second decade of the century, China’s path towards greater shareholding and voting power in the major MDBs was substantially blocked. Not only did this limit China’s prospects for increasing its geopolitical role in a critical set of international institutions, but it also frustrated its long-standing efforts to increase the financing capacity of the MDBs. Starting at least as early

¹⁰ As of spring 2021, Chinese national Shixin Chen is one of ADB’s two operational vice-presidents.

as 2000, China's representatives regularly called for shareholders to capitalise the World Bank and other MDBs to support infrastructure financing in the developing world (see, among several examples, statements at the World Bank Development Committee by Jin (World Bank, 2000) and Lou (World Bank, 2015)).

In the years following the global financial crisis, China began exploring new options to use its financial reserves, and MDBs were perceived as an investment destination with both financial and geopolitical benefits. Creative options had clearly been on the minds of Chinese policy-makers for some years, as evidenced by a recommendation by the Chinese representative to the Development Committee that the World Bank consider 'contingent capital' in 2000 to increase financing capacity (World Bank, 2000), and a 2008 statement that the Bank 'should take an open and forward-looking perspective on sovereign wealth funds and new types of development cooperation' (World Bank, 2008). These ideas began to coalesce during the tenure of long-time PBOC Governor Zhou Xiaochuan, who represented China in several major non-regional MDBs, including the IDB and the AfDB. The PBOC directly oversees the State Administration of Foreign Exchange (SAFE), which holds China's huge hard currency reserves, giving it considerable financial resources.

The formula that Chinese decision-makers and MDB senior management hit upon was to create a series of co-financing funds at the three MDBs: IDB (\$2 billion), AfDB (\$2 billion) and IFC (\$3 billion initially, rising to \$4 billion with Hong Kong resources in 2017). These are not the only Chinese-created funds in the MDBs: China has created

several trust funds, at the ADB with the PRC Poverty Reduction and Regional Cooperation Fund in 2005, and more recently in 2015 at the World Bank with the China World Bank Group Partnership Facility (CWPF) (see Appendix 2). However, the difference is the scale – the World Bank and ADB funds (\$50 million and \$90 million, respectively) are dwarfed by the three co-financing funds. Unlike the other funds, all three were funded through the PBOC's foreign exchange reserves via SAFE, and alongside the Hong Kong Monetary Authority (HKMA), in the case of the IFC fund.¹¹

Official bilateral agencies and private financiers have for years provided co-financing to MDBs on a deal-by-deal basis, wherein an MDB originates a project and provides some financing, and the external source adds more on top to make a larger total financial envelope for the borrower. The MDB is legally responsible for administering the project and loan repayment, and both the MDB and the third-party financier are repaid at the same financial terms. The difference with these Chinese co-financing funds is that substantial resources were committed up front, meaning the MDB can tap into those resources whenever it originates projects that meet certain criteria. In short, the funds act as 'an extra chequebook', as the IDB former manager put it,¹² which the MDBs can draw upon without having to go through the hassle of finding potential co-financing or syndication partners for each deal.

The key financial and developmental trade-off in channelling these resources through co-financing funds rather than MDB share capital is that they are not leveraged. If the \$8 billion in co-financing had instead been capital contributions, it would have

11 Whether the HKMA is independent from Chinese authorities is debatable (IMF, 2014), but it seems likely that its decision to participate in the IFC programme was influenced by PBOC's participation.

12 Interview 17-02-2021.

represented huge capital increases – 167% for the IFC, 41% for the IDB and 43% for the AfDB at the time of the co-financing fund creation, far more than any individual shareholder has contributed in any of the recent MDB capital increases. As fresh capital, these funds could have supported \$32–40 billion in project loans, rather than \$8 billion in project loans under the co-financing funds. Chinese authorities would have preferred to increase their normal shareholding stake, but this was not an option for political reasons. China discussed the possibility of creating some type of separate share class with reduced voting power or a hybrid capital instrument that would allow it to inject capital into the MDBs with reduced voting rights, but this was also not feasible politically due to concerns from G7 shareholders.¹³

A second trade-off relates to the fragmentation of MDB resources and operational focus. Reinsberg (2017) highlights how the rise of multi-bi trust funds managed by the World Bank can be problematic: on the one hand, additional trust fund resources are useful, but on the other, the proliferation of trust funds makes it more difficult for shareholders and management to establish clear operational priorities. China's co-financing arrangements may pose a similar challenge in fragmenting the focus of the MDBs. The fact that the co-financing funds simply tap into the existing project pipeline may make them less likely to influence MDB operations than trust funds. Nonetheless, the creation of new financing streams outside core capital is by itself problematic for overall MDB management and administration.

3.2.1 Creation of funds in 2013/14

The first move came with the IDB. In the years following the IDB's 2010 capital increase, then-President Luis Alberto Moreno had a series of conversations with PBOC Governor Zhou Xiaochuan to explore ways for China to channel more resources to the IDB, in lieu of share capital. As one former member of senior management put it, 'After the capital increase, our percent of paid-in capital was the lowest of any MDB. Particularly for the private sector [clients of IDB], there wasn't enough capital ... And they [the Chinese] had this huge amount of capital from their sovereign wealth fund that had to be invested every year. So really it was just joining those two ideas together'.¹⁴ The China Co-Financing Fund for Latin America and the Caribbean was announced in March 2013, with \$1.5 billion dedicated to private sector lending projects and \$500 million to public sector projects (IDB, 2013).¹⁵

Shortly after the IDB's announcement, the IFC began work on a similar arrangement, dedicated entirely to private sector projects. 'There was a lot of attraction [in the IFC] to the structure that IDB came up with, and we wanted to replicate that', said a former senior IFC official.¹⁶ The former official noted that the IFC executive vice-president and chief executive officer at the time, Jin-Yong Cai, was a Chinese national well-connected to key Chinese government decision-makers, which facilitated negotiations. Initially the IFC had considered making the fund \$5 billion, but

13 Interview 21-01-2021.

14 Interview 17-02-2021.

15 Following the 2017 consolidation of the IDB's private sector operations in a separate institution, IDB Invest, the \$1.5 billion private sector portion of the fund was shifted to IDB Invest. The remaining \$500 million in public sector co-financing remains at the main IDB lending window.

16 Interview 21-01-2021.

it was dialled back to \$3 billion out of concern that the fund could reduce incentives for IFC staff to seek commercial co-financing partners.

The AfDB followed in early 2014 with its own co-financing arrangement, the Africa Growing Together Fund (AGTF). Like the IDB fund, the AGTF began with direct discussions between then-President Donald Kaberuka and PBOC Governor Zhou at least a year before. The AGTF was almost a mirror image of the IDB's fund, in that 80% was intended for public sector lending and 20% for the private sector. This breakdown was mainly due to risk appetite considerations on the part of the Chinese – according to a former AfDB senior manager, ‘They weren’t fully convinced on our private sector lending, and wanted to slant it more toward sovereign guaranteed operations’.¹⁷ The Chinese evidently felt that the IDB’s private sector lending was more likely to be repaid than that of the AfDB – a reasonable supposition in light of the AfDB’s much higher non-performing loan rate compared to the IDB in 2013 (2.9% vs. 0.2%), driven by its private sector loans (Moody’s, 2014: 15).

The large size of the Chinese co-financing funds led to some concerns on the part of the US and major European shareholders at all three institutions, according to the former senior staffers interviewed (all of whom participated in the relevant board meetings and shareholder discussions). ‘Let’s face it, any move by China is viewed with scepticism’, said the former senior AfDB manager. ‘This is a lot of money, so the other shareholders were saying, “What’s going on here? What are China’s motivations?” These were big question marks’.¹⁸ MDB management strongly supported the funds as a means of

expanding their financial capacity, and borrower shareholders were uniformly in favour. In the end, management was able to convince non-borrower shareholders that the funds posed no threat to the project selection, approval and implementation processes, and that China would not have any influence on procurement or be able to use the fund for political purposes.

3.2.2 Funds operation

The basic operational structure of all three co-financing funds is similar. Apart from the division between sovereign and non-sovereign lending for the IDB and AfDB, all three funds are eligible to support projects in all sectors and geographies, and have no particular thematic focus. In all cases, the MDBs are mandated to, in the words of the IFC’s description, ‘create a diversified pool of loans on their [SAFE and HKMA] behalf. Both SAFE and HKMA invest alongside IFC in senior loans to support economic development across all industry sectors – covering infrastructure, financial institutions and the real economy’ (IFC, 2021).

In all three funds, the MDB develops the project and then proposes it to Chinese authorities, who can then decide to accept or turn down the project. Negotiations on China’s right of refusal were a critical point. The AfDB former manager noted that:

This was a tricky conversation. When we were negotiating the fund, we said ‘When you say no, it can’t be based on some ideological or political reasons.’ On one of our trips to China, [another AfDB official] said, ‘Listen, if we are

¹⁷ Interview 22-01-2021.

¹⁸ Interview 22-01-2021.

doing a project in Senegal, and it ticks all the boxes, and Senegal said they just recognise Taiwan, would that affect their decision?’ And they [the Chinese] said no. We said everything would be driven by AfDB’s policies – this would not be a tool China uses for ideological and political reasons.¹⁹

The lack of political influence is substantiated at IDB Invest by a recent approval deal using Chinese co-financing funds to Guatemala and Honduras, both of which still recognise Taiwan (IDB Invest, 2021).

Although specific numbers are not publicly available, accounts from current and former MDB staff indicate that the Chinese rarely turn down projects proposed for the funds. The most common reasons cited for declining a project were related to concerns over the concentration of the fund’s portfolio of loans or because of macroeconomic risks in the recipient country. Project procurement was a concern for some shareholders, but MDB management stressed that Chinese firms would have no advantages in bidding on projects receiving co-financing. ‘There’s no issues on that, absolutely no quid pro quo on procurement’, said the former senior IDB manager.²⁰ Similarly, the former senior AfDB manager said that ‘Normal procedures apply for AGTF projects. The projects use international competitive bidding in all cases and the usual procurement requirements apply. Fund financing does not influence procurement’.²¹

There is no publicly available information on how much of the co-financing fund resources have been used thus far or whether there have been any significant issues with repayment or loan write-offs. A Chinese official knowledgeable with the AGTF indicated that about \$900 million of the original \$2 billion had been used by early 2021, substantially slower than originally planned. ‘Compared with the IDB, AGTF has been a little bit slower, mainly because of the market – Latin America is a bigger market, with higher demand. But we are satisfied overall.’²² According to IDB Invest, most of the \$1.5 billion had been deployed, and the fund was expected to finalise in the next year or two. No information was available on the deployment of the IFC’s China fund. Based on official reports and press releases, the funds have supported an assortment of projects in the transport and energy sectors, particularly renewable energy and clean technology, which aligns with the infrastructure focus of China’s bilateral finance.

The co-financing funds are nearing the end of their projected durations, and future prospects remain unclear. All three institutions have suggested they would like to continue the funds, and assuming their financial performance has been relatively positive, China would seem to have little incentive not to renew them. However, the leadership of the PBOC and SAFE has changed since they were created and the views of the new leadership are uncertain. In the case of the IDB, the cancellation of the planned 2019 annual meeting in Chengdu

19 Interview 22-01-2021.

20 Interview 17-02-2021.

21 Interview 22-01-2021.

22 Interview 17-03-2021.

at the last minute²³ (Politi, 2019) and the heavy-handed imposition of a US national as IDB president in 2020 (Walsh, 2020) may influence China's future engagement with the bank.

The co-financing funds have been perceived as a major success and useful innovation across the MDBs. The Chinese fund – born out of necessity and political resistance to greater shareholding – became the template for the creation of an entire programme of co-financing arrangements at the IFC known as the Managed Co-Lending Portfolio Program (MCLPP), which now has a total of \$10 billion in resources in eight different funds, and has crowded in several major private sector investors, including Swiss Re, Allianz and AXA. IDB Invest has also created a similar platform with a private investment firm, Blue Like an Orange Sustainable Capital, and the other major MDBs have considered creating similar funds for private investors as well. The AfDB has also encouraged other official sources such as sovereign wealth funds to establish funds like the AGTF, but as yet with no success.

3.2.3 What is China's motivation for creating these funds?

Overall, interviewees were adamant that the co-financing funds offered China no influence on the kinds of loans financed by the MDBs and, in fact, China has taken pains to ensure that the fund portfolios mirror the overall MDB portfolios.

Chinese firms do not gain preference for procurement on projects with co-financing, nor do the funds appear to be used to promote China's geopolitical agenda. What, then, is the goal of these funds from a Chinese perspective?

One answer is clearly financial. As the former IFC official put it:

China was accumulating huge reserves, they literally didn't know where to put the money. One motivation was that at least they would get a little more return than putting it in US treasuries. IFC is a trusted institution with a strong track record, so why not let IFC invest it for you? This was a major motivating factor.²⁴

The fact that the Chinese institution responsible for these funds is the PBOC, which is viewed as being more commercially-oriented than the MOF, meant that profitability was probably a concern.²⁵ Financial returns would also explain why the majority of the co-financing funds – about \$6 billion out of \$8 billion total – is directed to private sector projects: MDBs charge more to private sector borrowers, and can price in risk, unlike the low pricing for sovereign borrowers. The weighting of the AfDB's fund toward the public sector reflects Chinese concerns that the riskier nature of private sector loans by the AfDB was not sufficiently offset by loan pricing.

²³ The 2019 annual meeting was to be held in Chengdu to mark the 10th anniversary of China's membership. However, a public disagreement arose around the Venezuelan representative, who was appointed under the opposition government of President Guaido. China refused to grant a visa to the representative, as it still formally recognises the government under President Maduro. Under US government pressure, the IDB called off the meeting and rescheduled instead in Ecuador.

²⁴ Interview 21-01-2021.

²⁵ Interview 02-03-2021.

The other motivation appears to be prestige and soft power within the governance of the MDBs. All the former MDB managers interviewed for this study agreed that the willingness of China to contribute such a large amount of resources to their institutions unquestionably increased its informal influence, although they all quickly noted that this is no different from other shareholders. ‘It is likely that senior management listens to them a little more closely’, said a former AfDB manager. ‘This is no different from some of the trust funds from other countries. Take the case of UK – it is a fairly small shareholder at the bank, but it is huge on the ADF (concessional

fund). And because of that, UK’s voice is taken very seriously at the bank.’²⁶ The former IFC manager said, ‘The Chinese use money just like the US did several decades ago. No doubt in my mind that China is playing that game. It doesn’t give them more formal power, but some soft power and voice? At the margins probably yes.’²⁷ The former IDB manager indicated that the inclusion of an extra advisor on each Board seat (which ensured a permanent position for a Chinese advisor at IDB HQ) and the abortive effort to hold the 2019 IDB annual meeting in China were influenced by the fact that China had contributed \$2 billion to the bank.²⁸

26 Interview 22-01-2021.

27 Interview 21-01-2021.

28 Interview 17-02-2021.

4 Shareholding and financing in sub-regional MDBs

A second strand of China's engagement with multilateral finance is its relations with an array of smaller sub-regional MDBs in Africa, the Americas and western Asia. This has come in two ways: first, as a non-borrowing shareholder, primarily represented by the PBOC, and second, through a patchwork of credit facilities from Chinese policy banks.

These smaller MDBs – created and controlled by developing countries themselves – are a little-remarked upon facet of the multilateral finance landscape, but they have been growing rapidly in recent years. The most successful of these MDBs is the Development Bank of Latin America (CAF), which was founded in 1970 and began expanding after a series of internal reforms in the early 1990s. In more recent years, other borrower-led MDBs, such as the Trade and Development Bank (TDB), the West African Development Bank (BOAD), the Central American Bank for Economic Integration and the Black Sea Trade and Development Bank, have also embarked on a phase of membership and lending expansion (Humphrey, 2016; 2019).

The borrower-led character of these MDBs has offered a useful platform in regions where China has strong bilateral diplomatic and commercial interests, and it also reflects its efforts to align itself with other developing countries. China's support

via share capital and credit lines is valuable for these MDBs, which often struggle for sufficient resources at a reasonable cost, giving it a potentially influential role for relatively small fiscal contributions.

4.1 China as a non-regional shareholder

China has joined four sub-regional banks in Africa and Latin America as a non-borrowing, non-regional shareholder. This engagement began in the mid-1990s and early 2000s, in the early phases of China's integration into the global economy. The first instance was the Cairo-based Afreximbank, which China joined at its founding in 1993 and in which it currently holds a 4.43% stake (see Table 2). Subsequently in 1998, China joined the Caribbean Development Bank (Caribank), with 6.64% of shares. China's MDB memberships expanded further in Africa with the TDB (joined 2000) and BOAD (2004), where it currently has 5.58% and 1.09% of total shares, respectively.

While smaller MDBs often have other non-regional nations as members – such as former colonial powers, including France (in West Africa) and the UK (in the Caribbean), who tend to take an interest in specific regions – China's representation in these banks has been far broader and more systematic. In the TDB, it is the only major non-regional member (Table 2).

Table 2 Shareholding in small MDBs, selected countries (2019)

MDB shareholding (%)				
	African Export Import bank (Afreximbank)	Caribbean Development Bank (Caribank)	Trade and Development Bank (TDB)	West African Development Bank (BOAD)
China	4.43 (China Eximbank)	5.58	7.1	1.09
US	-	-	-	-
Canada	-	9.31	-	-
UK	-	9.31	-	-
France	-	-	-	3.50
Germany	-	5.58	-	0.18 (KfW)
Japan	-	-	-	-
India	-	-	-	0.07
Mexico	-	2.79	-	-
South Africa	2.00 (as Export Credit Insurance Corporation)	-	-	-
Nigeria	5.33	-	-	-

Source: Annual reports from 2020 and bank documentation 2019 (for Afreximbank) synthesised by authors

China's next new membership with a borrower-led MDB appears to be underway in 2021, with CAF. A well-placed source within China stated that China will soon join CAF as a shareholder,²⁹ although a senior CAF official consulted for this study would not confirm the news. Membership of CAF would make sense, given China's considerable interests in Latin America and CAF's impressive growth trajectory. Within CAF, the retirement in 2017 of former long-time President Enrique Garcia may have spurred an institutional policy shift around accepting non-regional shareholders – the former president had been strongly against it, in order to maintain the bank's autonomy. China's

impetus in joining CAF may also be related to the deterioration of its relations with the IDB after 2018, as mentioned above, and a desire to find another multilateral partner in the region.³⁰

The PBOC is China's shareholder representative at these MDBs, reflecting China's position as a creditor rather than a borrower. The only exception is Afreximbank, where China Eximbank is the shareholder (the bank's structure allows export credit agencies to join as class C shareholders). Particularly in the African MDBs, former PBOC Governor Zhou Xiaochuan appears to have played an influential role in facilitating

29 Interview 02-03-2021.

30 China has not joined the Central American Bank for Economic Integration (CABEI), however, despite having substantial interests in Central America and CABEI's recent lending growth and strong financials. This is likely because Taiwan has been a member of CABEI since 1992 and has a 10.5% shareholding stake, the largest of any non-regional member, and several Central American countries, including Honduras and Guatemala, have full diplomatic relations with Taiwan. Hence, joining CABEI is not a realistic option for China in the near term.

China's membership.³¹ This engagement with African regional banks coincided with a period of growing bilateral diplomatic and commercial relations with the continent, which took off after the first Forum for China Africa Cooperation summit in 2000.

If it goes ahead as projected, China's membership of CAF would be the first new MDB membership since 2004 (with BOAD) in sub-regional development banks. It would also be a break from precedent, as the institutional shareholder for CAF is expected to be the MOF rather than the PBOC. This suggests that the borrower/creditor pattern in China's shareholding institutions is still ad hoc and evolving,³² and may indicate a structural shift in weight from the PBOC to the MOF in future MDB relations.

4.2 Financial interests and influence on governance

The scale of China's financial involvement at the borrower-led MDBs is relatively modest. At the end of 2020, China's total shareholding commitment across the four smaller MDBs to which it belongs was just under \$100 million paid-in capital, plus an additional \$250 million in guaranteed callable capital. This pales in comparison to China's \$5.9 billion paid-in share capital investment in the AIIB as of end-2020.

Caribank is the only one of the smaller MDBs to which China belongs that has a donor-funded concessional lending window for lower-income countries, the Special Development Fund. China has thus far contributed a modest \$54.6 million

to the fund since it joined the bank, about 4% of total contributions. Around 2015, China and the bank's management considered ways to increase China's shareholding and to create a new trust fund. However, the proposals did not move forward because the bank's management considered the transaction costs of the fund were too high, as well as 'political calculations' that it might raise questions with other donor countries, and with the US.³³

As well as being a shareholder, China has also provided credit lines to borrower-led MDBs through CDB and China Eximbank (see Table 3). This is not substantively different from the lending by development agencies from donor countries to these MDBs. For example, 20 different official development agencies provided long-term credit lines to the TDB in 2020, including Finland, France, Germany, Japan, the UK and the US. Of \$1.7 billion in outstanding long-term official borrowing by the TDB as of end-2020, China Eximbank's credit line accounted for only \$250 million (TDB, 2021: 60). However, providing credit lines to these MDBs is another indicator of China's interest in multilateral engagement, and it often coincides with other regional diplomacy initiatives, such as the Forum for China Africa Cooperation 2018 summit. In the 2000s, CDB also extended small credit lines to two non-shareholding banks, Central Africa State Development Bank (BDEAC) and East African Development Bank (EADB) (Business in Cameroon, 2017), demonstrating how comprehensive China's development finance to African regional institutions has been (see Appendix 2).

31 Interview 17-03-2021.

32 Interview 02-03-2021.

33 Interview 19-03-2021.

Table 3 Lending facilities from China to small regional MDBs

	Afreximbank	BOAD	TDB
China Development Bank	2018: \$500 million on-lending facility for trade infrastructure (Afreximbank, 2018a)	2014: \$100 million credit line 2011: €60 credit line for private sector activities (Xinhua, 2014)	2008: \$122.9 million long-term credit facility (TDB, 2018)
China Eximbank	2016: \$1 billion for industrial zone development (Afreximbank, 2016) 2016: \$250 million guarantee for syndicated loan (CPI Financial, 2016) 2009: \$100 million line of credit	–	2016: \$250 million credit line to trade finance and infrastructure (TDB, no date)
Bank of China	2018: \$350 million facility to target bank-to-bank loans and trade finance (Afreximbank, 2018b)	–	(Other short-term facilities, details unavailable)

Source: Authors' elaboration

In recent years, Chinese engagement with Eurasian MDBs has grown, in line with the growing importance of the region to the Belt and Road Initiative (BRI) – the same factors leading China to join the EBRD in 2015. The Black Sea Trade and Development Bank has signed several memoranda of understanding with Chinese banks, including the Bank of China in 2016, to explore cooperation in infrastructure co-financing, and with China Eximbank in 2020 for energy infrastructure, trade and green investment (The Financial, 2016; BSTDB, 2020). Eximbank signed in 2020 a \$230 million loan to the Eurasian Development Bank (EDB), based in Kazakhstan, to finance transboundary transactions between China and EDB member countries, many of which form the backbone of the BRI in Central Asia. As with the African and Caribbean banks, supporting regional MDBs is complementary to China's broader bilateral engagement in these regions.

While not large, these facilities can be extremely helpful in bringing down MDB funding costs. Because of their shareholding structure and track record, borrower-led MDBs have lower credit ratings and more expensive access to capital markets and bank borrowing, meaning lines of credit from official sources are critical for keeping down the cost of loans they are able to offer borrowers, thereby increasing their effectiveness as development finance intermediaries. The loans to African MDBs also strongly align with the Chinese policy banks' activities in funding trade and infrastructure, and their mandates to support Chinese firms and goods. For example, the Afreximbank partnership with China Eximbank planned to raise \$1 billion to support industrial zone development across Africa, of which Chinese investors and industries are likely to be major beneficiaries.

This pattern of funding reflects China's overall approach to development finance, which is strongly focused on economic development and job creation. 'In all of our interactions, Chinese representatives have always been pro-growth, the imperative of getting economic development going', said a senior manager of a borrower-led MDB. 'This was a bit lost in the 1980s and 1990s, when most of the traditional partners were in a completely different mode of development, focused on social issues, health, HIV/AIDS, a total shift away from economic side. China has always been very understanding of that.' This, the manager noted, aligned more closely with the goals of the borrower country governments themselves.³⁴

According to a senior manager with one of the MDBs, China has played an active role in creating connections to the Chinese financial market, including commercial banks for co-financing and syndication transactions. The manager noted that this was similar to what their bank did with other countries, including Japan, the UK and the US, but that in the case of China 'the sovereign was maybe a bit more involved in facilitating' the roadshows with commercial banks in Beijing compared with other countries.³⁵ While none of the smaller MDBs have as yet issued debt in China's capital market, RMB bonds and increasing the use of RMB has been discussed, including at Caribank in 2017.

Due to its sizeable financial contribution, as well as its geopolitical and economic weight, China's voice is listened to and well regarded within the governance structures of the smaller MDBs. Senior managers at two smaller MDBs indicated

that China tends to be a low-key shareholder, generally being sympathetic to borrowing member states and not attempting to use its power for its own interests. China's focus in board meetings has been mainly on technical and financial issues related to individual projects and on protecting the financial soundness and creditworthiness of the banks.³⁶ As one manager put it, China's representatives have always been 'very switched on about credit decisions, risk management and the appraisal process'.³⁷

Despite its relatively soft-spoken approach, China has not been shy about stating its views on MDB strategy. For example, China joined TDB in 2000, when the bank was facing financial problems and some shareholders favoured privatisation, in keeping with the trend at that time against public banks. A Chinese official with experience in several MDBs said that China had strongly opposed privatisation, believing that it was essential to maintain TDB's multilateral, public character – in line with China's views on the strategic importance of public finance as a development catalyst.³⁸ More recently, Chinese representatives at TDB have voiced caution about the bank's drive to bring in private shareholders, and have encouraged member governments to build TDB's strength by committing more capital themselves instead.

4.3 Drivers of engagement

Two principal drivers led to China engaging with the small MDBs. First, membership in these MDBs was seen as a platform for engagement with other developing countries. The mid-1990s, as

34 Interview 24-02-2021.

35 Interview 24-02-2021.

36 Interview 18-03-2021.

37 Interview 24-02-2021.

38 Interview 17-03-2021.

today, was a period of fraught US–China relations, which made engagement with other international partners more important, and so MDBs were viewed as a useful vehicle for diplomatic relations. For Africa, the MDBs were seen as a ‘credible platform to promote relationships between China and African countries’, as one informant emphasised, ‘because it’s governmental’.³⁹ That the US is not a member of these smaller banks is a salient factor.

Second, joining the small MDBs in this period was a means of gaining exposure to the international system or, as one Chinese respondent put it, ‘a learning process’, adding, ‘when [we] first entered the MDBs, we didn’t know how to evaluate proposals’.⁴⁰ MDB participation in the 1980s and 1990s was a channel for domestic capacity-building, to gain exposure to international practices and standards at a time when Chinese finance bureaucracies were still relatively inexperienced. Areas such as project proposal evaluation and managing foreign exchange resources were key priorities for capacity-building, while China’s global trade and reserves were expanding rapidly.⁴¹

In the case of the Caribbean, joining Caribank also served diplomatic objectives, as well as commercial ones. The Caribbean is important to China’s overseas financial activity – after Hong Kong, the Cayman Islands and British Virgin

Islands are the largest recipients of Chinese outbound capital, together accounting for around 19% of China’s total overseas foreign direct investment stock, much of which is used for ‘offshoring’ and ‘round-tripping’ capital.⁴² However, more importantly, as one informant put it, ‘it’s about politics – asserting legitimacy in the regional banking system, and at the margins, China being able to influence policies in this region’.⁴³ As Caribbean countries are divided in their diplomatic relations between China and Taiwan,⁴⁴ participation in Caribank serves as a useful intergovernmental mechanism, as ‘an open and neutral platform for engagement and to deepen understanding’ between China and Caribbean countries.⁴⁵

As with the major MDBs, procurement for Chinese firms does not seem to be a salient factor in China’s membership of these banks, though, as one informant commented, ‘the advantage is not zero’. MDBs are useful as a means of ‘intelligence gathering’ to support domestic firms by improving the understanding of procurement processes, local economies and development projects and commercial opportunities in the region.⁴⁶ However, in the main, it is the bilateral finance from CDB and China Eximbank that Chinese firms benefit from, rather than multilateral shareholding per se, and regional MDBs serve as another piece of China’s comprehensive economic engagement within their regions.

39 Interview 17-03-2021.

40 Interview 19-03-2021.

41 Interview 19-03-2021.

42 Sources: *China Statistical Yearbook*, ‘Overseas direct investment by countries or regions’, various years; *Statistical Bulletin of China*, ‘Outward foreign direct investment’, various years; <http://fec.mofcom.gov.cn/article/tjsj/tjgb/> via. China Africa Research Initiative.

43 Interview 18-03-2021.

44 Caribank members Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Haiti all recognise Taiwan. Grenada and Dominica have switched diplomatic recognition from Taiwan to PRC since 2000.

45 Interview 19-03-2021.

46 Interview 17-02-2021, interview 04-02-2021.

5 China's role in creating new MDBs

The strategies employed by successive Chinese governments reviewed in the previous two chapters are creative efforts to extend the country's role and influence in different sets of MDBs, despite difficulties in obtaining higher formal shareholding and voting power. However, these strategies have their limits. Co-financing at the major MDBs generates a degree of prestige and informal soft power, but does not fundamentally change China's subordinate position. Attempts by China to amass controlling shareholding at smaller, borrower-led MDBs would work against its efforts to be perceived as a cooperative player supporting other developing countries. At the same time, Chinese authorities have over the years developed views on how MDBs should be operated: faster, less bureaucracy, respect for recipient countries' priorities, and more financing for hard infrastructure and industry.

The next logical move is to create new MDBs in which China would have shareholding power more in line with its rising geopolitical and economic strength, and where it can channel its perspectives on MDB governance and operations into practice. By 2016, China had played a critical role in creating two new banks: the AIIB and the NDB. The contrasting nature of the world's two newest MDBs, and China's ambiguous role in their governance, reveals much about China's policy priorities and relations with other developed and developing countries.

5.1 Creation, governance and early operations of AIIB and NDB

The idea of founding new MDBs oriented around emerging market countries dates back to a 2009 proposal by a Chinese think tank for an Asian bank, and to the growing cooperation between Brazil, Russia, India, China and South Africa – the 'BRICS' – in the early 2000s.⁴⁷ Formal commitments to create both banks were announced in 2013 – the AIIB by Chinese President Xi Jinping on a trip to Southeast Asia, and the NDB at the fifth BRICS summit in South Africa. The NDB's articles of agreement were finalised in July 2014; it was legally created a year later and began full operations at the start of 2016. The AIIB's articles were finalised in June 2015 and the bank officially opened on 1 January 2016.

As of March 2021, the AIIB had 86 member countries and 17 more listed as prospective members, the second-largest membership of any MDB behind the World Bank – a remarkable achievement for an international institution created only five years ago. Even more remarkable is the fact that fully 40 member countries are non-Asian, and joined despite having limited prospects for financing,⁴⁸ including five of the seven G7 countries, as well as developed and developing countries as disparate as Benin, Ethiopia, Greece, Serbia and Uruguay. China is the dominant shareholder at the AIIB, with 27.4% voting power as of March 2021 (including the votes of Hong Kong),

47 For more detail on the creation of both MDBs, see among others Callaghan and Hubbard (2016), He (2016) and Chin (2014).

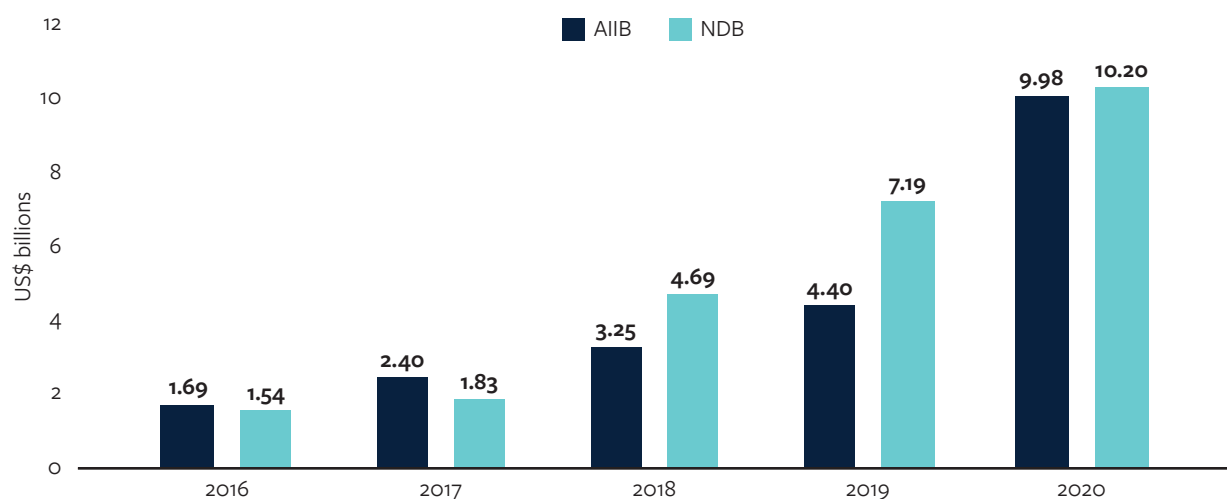
48 Current policy stipulates a maximum of 15% of approvals to non-Asian countries (AIIB, 2018). The only non-Asian countries that have thus far received financing are Egypt (three projects, \$469 million) and Ecuador (one project, \$50 million).

which gives it sole veto power over changes to the capital structure, board of directors or articles of agreement (AIIB, 2015, 2021) – very similar to the power exercised by the US at the IDB.

The NDB, by contrast, had just five member countries as of spring 2021 – the original BRICS founders – despite approving the principles for admitting new members as far back as 2017 (NDB, 2017a). Also in contrast to the AIIB, the NDB has a shareholding model in which all five member countries have exactly the same shares and voting power (NDB, 2014). Furthermore, the NDB’s four vice-presidencies and the presidency rotate among the five founding members. As a result, China does not formally have a dominant role in NDB governance, and decisions must be reached by consensus.⁴⁹

Both of the new MDBs have received substantial initial paid-in capital from members (\$20 billion authorised for the AIIB and \$10 billion for the NDB), almost all of which has thus far been paid in according to schedule. The two banks have quickly ramped up financing, with the NDB approving \$25.5 billion through 2020 and the AIIB approving \$21.7 billion (Figure 4). Approvals jumped sharply in 2020 as both banks provided emergency financing to member countries in the Covid-19 pandemic. Apart from the 2020 emergency lending (much of which was in the form of budget support), almost all project approvals for both MDBs have been in physical infrastructure (transport and energy in particular), a key priority for China and other developing countries. By the end of 2020, disbursed and outstanding loans reached \$8.8 billion at the AIIB and \$6.6 billion at the NDB.

Figure 4 AIIB and NDB approvals, 2016–2020



Note: Does not include two cancelled NDB projects.

Source: AIIB project database; 2016–2019 NDB data supplied to author directly by NDB; 2020 NDB data taken from project database

⁴⁹ Should other countries join the NDB, they will by statute be in a permanently subordinated position to the BRICS in terms of governance authority – a fact that may have limited the interest of potential new members (see Humphrey, 2020).

5.2 Contrasting operational styles

Several observers have noted a number of contrasts between the two new MDBs (Serrano, 2019; Wang, 2019; Humphrey, 2020). The first, of course, is membership and governance – the AIIB has nearly 100 member countries (both developed and developing) and is dominated by China, while the NDB has only five developing member countries, with whom China holds equal voting power. But the MDBs also differ in several other areas of operational policy.

Environmental and social safeguards are a hot-button topic and have long been a cause of complaint among borrower countries, who view them as cumbersome, expensive and an infringement on their sovereignty. The AIIB has approved a set of safeguards that are modelled on those of the major MDBs, although somewhat more results-focused and less legalistic (AIIB, 2019), which has caused complaint by some civil society organisations (Hirsch et al., 2019). By contrast, the NDB emphasises its use of the regulatory and legal frameworks of the borrower countries themselves, and has only a brief and non-detailed safeguard policy (NDB, 2016).

Both have focused their early lending predominantly on government borrowers, as sovereign projects are usually easier to prepare and are a lower financial risk. However, the AIIB has moved much more quickly toward engagement with the private sector, with 17.5% of all financing approvals to private sector borrowers as of end-2020. The AIIB has also engaged with several innovative private sector-linked transactions, including equity and bond funds, as well as a stake in a new fund linked to the Singapore sovereign wealth fund, which will help securitise infrastructure assets for commercial banks in Asia. The NDB has instead remained

focused almost entirely on traditional public sector loans, with only 4.2% of total approvals to four private sector projects as of end-2020.

Engagement with other MDBs and the broader development community has also been markedly different between the AIIB and the NDB. As noted by Zhu (2019) among others, the AIIB has undertaken numerous co-financing projects with other MDBs (particularly ADB, IFC and EBRD) and actively participating in high-profile international development gatherings (Zhu, 2019). The NDB, on the other hand, has undertaken minimal co-financing, and mainly with smaller, borrower-led MDBs, such as the Eurasian Development Bank, the Black Sea Trade and Development Bank and CAF. It has had a much lower profile in the international arena, and instead has focused on engagement with the national authorities of its five member countries.

Staff composition is also an area of contrast. As noted by Serrano (2019), the NDB's staff has been drawn largely from the national development banks and government ministries of the five BRICS nations, and few have experience in other MDBs. The potential recruitment pool is also limited at the NDB due to hiring being restricted to BRICS nationals. At the AIIB, on the other hand, much of the senior management has been recruited from the major MDBs, especially the World Bank. Additionally, numerous nationals of non-member countries have worked for the AIIB at high levels, including two US citizens who led the writing of the bank's articles of agreement and environmental and social safeguarding policies.

5.3 How AIIB and NDB suit China's interests

China's role in creating the world's two newest MDBs is a strong vote of confidence in the MDB

model. The Chinese government is nothing if not pragmatic, and it is well aware that the World Bank and major regional MDBs have generated decades of development financing along with numerous geopolitical benefits for their major shareholders, at very little budgetary cost. MDBs are extremely useful tools, and China evidently has decided that it is well worth investing in MDBs that it can shape to align with its own views on development.

The AIIB and the NDB also provide a forum for China to ‘test the multilateral waters’ on terms that it has had a strong hand in defining. Since its re-emergence onto the global stage in the past four decades, China has been understandably wary of multilateral institutions set up after the Second World War, recognising that they were created by the US and G7 nations in ways that to a substantial degree suit their own interests. These new MDBs provide an opportunity to bolster China’s multilateral credentials as a rising power that is willing and able to cooperate with other nations to achieve shared development goals, but within a governance framework not built and controlled by other global powers.

At the same time, China has been instrumental in creating two MDBs with quite contrasting governance and policy frameworks. While seemingly contradictory, it makes perfect sense in terms of China’s geopolitical aims, as well as its approach to multilateral financing. The AIIB and the NDB each play a specific political and developmental role, for different audiences and for different purposes. Since the fiscal and political capital required is very modest from China’s point of view, there is no reason not to support them both.

The AIIB is unquestionably China’s creation, announced unilaterally as a Chinese initiative by President Xi in 2013. In the AIIB, China is

investing its own prestige and resources in a multilateral organisation that reflects its rising global ambitions and interests, but also generates benefits for other nations. For other member countries, joining the AIIB signals a willingness to engage with China as a rising global power, and its rapid membership growth has brought substantial international prestige. The fact that five of the G7 and several other major developed nations joined the AIIB, despite lobbying efforts against it by the US, was a major diplomatic victory. This was facilitated by the particularly good relations between China and European nations (especially the UK) when the AIIB was created. In the uneasy diplomatic context of 2021, this success may not have been so assured.

China has been flexible in accommodating key interests of developed country shareholders in the AIIB, notably on safeguards, project review and oversight and avoiding direct linkages to the BRI. China has also, by all accounts, avoided using its AIIB governance power overtly, and appears to be giving AIIB leadership space to develop their own institutional identity and approach without heavy-handed oversight – at least thus far (Humphrey, 2020). Non-borrower shareholders, in turn, have been more open to trying new policies and approaches at the AIIB that are more closely aligned with the priorities of borrower countries. The result is an MDB that looks in many ways similar to the World Bank and major MDBs, but with a more streamlined administration, an emphasis on infrastructure and economic growth and a strong governance role for China.

The NDB, on the other hand, is an expression of solidarity among emerging powers, reflecting a long tradition of South–South cooperation. From China’s point of view, the operational characteristics of the NDB are secondary to building and maintaining relations with the other

BRICS and demonstrating an alternative vision of global governance. Particularly with India and Russia – two neighbouring powers with whom China’s relations are complex – the NDB can be a useful, non-threatening platform for dialogue and engagement. Since China can already push its own vision at the AIIB, it is less concerned about the operational policies of the NDB, and more inclined to acquiesce to the views of the other four members (He, 2016; Liu, 2016). Hence, despite its vastly greater economic power, China was willing to accept an equal governance share with the other four BRICS, and has by all accounts not attempted to impose its views on NDB operations (Nogueira, forthcoming).

The NDB’s markedly different operational policies and its apparent limited interest in engagement at the ‘top table’ of international development discussions also offer potential benefits to China. The NDB has charted a path starkly different from the major MDBs, co-financing with smaller, borrower-led MDBs and working closely with national development banks within member countries. As the rapid growth of borrower-led MDBs such as CAF, the TDB and others has demonstrated, this approach is in some ways more aligned with a post-Bretton Woods world and could prove to be a viable model in the long term. China has actively though quietly supported the NDB’s growth in many ways, for example immediately granting the NDB preferential access to its domestic bond market (unlike the other BRICS), and borrowing substantially from the NDB in its early years despite clearly not needing the resources, in order to help strengthen the bank’s balance sheet and financial profile.

The diverse membership and major MDB-style approach of the AIIB provides China with important international legitimacy and standing, while the NDB maintains China’s role as a partner to other developing countries and in promoting other approaches to economic development. Thus, China can take advantage of both MDB models. This neatly matches the somewhat split personality of China’s international role, as described by Wang (2019): on the one hand, China is pursuing the interests of an ambitious global power and a growing creditor nation, while on the other hand it is maintaining its traditional solidarity with the Global South.

An interesting contrast to the AIIB and NDB in China’s multilateral institution-building efforts is illustrated by the thus-far less successful trajectory of the Multilateral Cooperation Center for Development Finance (MCDF). Conceived in the 2017 Belt and Road Forum and launched in 2020 with a secretariat housed at the AIIB, MCDF was designed to serve as a coordination mechanism among different MDBs and development partners from the North and South to promote infrastructure and connectivity related to the BRI (Gu, 2020). The initial memorandum of understanding was signed by China’s MOF and a group of major MDBs: AIIB, NDB, the World Bank Group, IDB, ADB, EBRD and the European Investment Bank (Calabrese and Chen, 2020; Gu, 2020). However, thus far the MCDF has received contributions from only China and five other countries (Cambodia, Egypt, Hungary, the Philippines and Saudi Arabia), with no material support from major donor nations or other MDBs. One senior manager from a major MDB suggested that major non-borrower

shareholders were opposed to cooperation with the MCDF, in the context of intensifying geopolitical tensions with China, saying that the

MCDF was ‘looking for implementing partners, but some members [of the bank] would not be happy’ if the MDB in question were to join.⁵⁰

50 Interview 18-01-2021.

6 Conclusions and implications for policy

China's participation in MDBs is eclectic: as both a borrower and a major creditor; global power but developing country; supporting member of existing institutions while driving the creation of new ones. This paper has delved into three aspects of China's evolving role in the MDB space: its financial contributions to MDBs, particularly the creation of significant co-financing funds in large MDBs; its systematic shareholding and contributions to smaller, sub-regional MDBs; and the creation of two new MDBs, the AIIB and the NDB.

Four common characteristics stand out that suggest a particular approach in how China participates in the MDBs where it is a shareholder. These derive from a mixture of China's own development trajectory, its own way of managing international relations that has evolved since the founding of the People's Republic and the country's incipient but growing role in multilateral governance.

- **Diversification and pragmatism.** One overriding conclusion is that China takes a diverse, global approach to its engagement with MDBs, with continued involvement with the World Bank and major MDBs, a growing role across several smaller borrower-led MDBs and the creation of two new MDBs. It is also pragmatic, as shown through the use of creative techniques like co-financing to bolster its role in major MDBs where governance reforms were stalled. The contrasting operational characteristics of AIIB and NDB also highlight an openness to experiment with new operational structures and processes.
- **Consensus orientation.** While increasingly assertive in stating its positions, China has in

general avoided major confrontations and maximalist positions as an MDB shareholder, in stark contrast to the behaviour of the US in recent years. Even at AIIB, where it has veto authority, or at NDB and the smaller MDBs where it could exert greater informal influence, evidence indicates that China is more inclined to seek agreement rather than dominate discussions. As AIIB President Jin Liqun said in an interview, 'What matters is not the influence of a big shareholder. Rather, the issue is what kind of influence the big shareholder or shareholders play, and the way they exercise their power of influence' (Gu, 2018).

- **Promoting its views on development.** Because of its own track record of economic growth and development over the past four decades, Chinese authorities have strong views on how development should be undertaken. They have not been shy about clearly stating those views at the MDBs, and trying to shift MDB policies and practices in those directions. This includes, among others, a firm belief in the guiding role of the public sector while recognising the challenges and opportunities of a modern global economy; investments in physical infrastructure and job creation; and respecting the views of recipient governments on development priorities.
- **Building financial strength and capacity in MDBs.** China clearly views the core MDB model as extremely useful, and understands that a strong financial foundation is key. It has consistently pushed to increase the capitalisation of all the MDBs, sought other creative paths to inject more financial firepower in them (such as co-financing platforms, an

innovation subsequently scaled up by IFC among others) and has been cautious about policies that might weaken MDB financial sustainability or how they are perceived by bond market investors.

The remainder of this chapter summarises the key findings related to the motivations behind China's engagement in MDBs and considers implications for development finance policy.

6.1 Drivers of China's engagement in MDBs

Within China's strategies of MDB engagement, several key drivers emerge in how China utilises and sees value in MDBs: (1) to increase China's voice and influence in multilateral institutions; (2) as platforms for strategic engagement and regional diplomacy; (3) to support China's economic and commercial interests, including (peripherally) the BRI; (4) for capacity-building and knowledge exchange; and (5) to support global governance institutions in the promotion of economic development. These interests do not differ substantially from those of other OECD shareholders, but China pursues them as a much newer player in the MDB space and from a different position, as a still 'developing' country.

Voice and influence. China seeks a greater role in global governance and views MDBs as a vehicle for this. As put by a report from the Chinese Academy of International Trade and Economic Cooperation (a think tank in China's Ministry of Commerce): 'Bilateral [mechanisms] are the foundation, while multilateral [mechanisms] control the discursive power' (Zhang, 2021). However, China's representation in the major MDBs remains out of step with its economic

weight, due to the zero-sum game in reallocating shares from other countries. The creation of new MDBs has been one response to this: the AIIB's creation was a diplomatic coup, where China was able to crowd in a 'coalition of the willing', including European states. This success, however, does not appear to have been replicated with the MCDF, which has occurred in a context of deteriorating geopolitical relations.

Co-financing funds have been another route through which China has sought to use its voice and influence. Although small in the context of China's bilateral finance, these funds have served as instruments for soft power as much as for economic impact. As MDBs are unable to accommodate any ambitions for a capital increase from China, the funds are a second-best option for absorbing much-needed capital without disrupting the shareholding status quo. Nonetheless, the funds do seem to have had an impact on China's voice and influence 'at the margins', ensuring they are listened to by bank management.⁵¹

Regional diplomacy and strategic engagement.

As well as playing a developmental role, MDBs also serve a diplomatic function as a platform for regional engagement. China's shareholding in regional MDBs has been strongly motivated by geopolitical drivers: membership in the AfDB in the mid-1980s and sub-regional African banks in the 1990s and 2000s were a complementary component of China's expansion of its commercial and strategic ties with Africa. China's memberships of the IDB, Caribank and the EBRD similarly are closely linked to the country's rising economic and geopolitical profile in the respective regions. Regionally focused MDBs serve as a neutral intergovernmental platform in regions where not all countries have bilateral relations with China

51 Interview 17-02-2021.

(although several countries have since switched diplomatic recognition from Taiwan to the PRC in the past two decades). Even in its testy bilateral relations with the US, both countries maintain a neutral platform for cooperation through shared membership in the World Bank and other MDBs.

In all the MDBs, China invariably aligns with the positions of the borrowing countries against other donors, reflecting broader norms around South–South cooperation – even in the many MDBs where China is a creditor rather than a borrower shareholder. This dual identity is also reflected in the divergent character of the AIIB and NDB: the NDB offers a ‘South’-facing platform to engage with the BRICS as other ‘emerging’ powers; the AIIB, meanwhile, presents a more ‘North’-facing institution, where China occupies a seat at the table equal in status to the advanced industrialised nations.

Exporting capital and supporting the BRI. MDB finance also serves China’s commercial interests. The creation of major MDB co-financing funds in the early 2010s coincided with major outflows of capital investment from China, via its sovereign wealth funds, and the development of the BRI. This expansion of bilateral and multilateral finance shared the same impetus: to make better use of China’s foreign exchange reserves. MDBs are a safe and trusted channel to offshore some of this excess capital, both to obtain influence and to make commercial returns on investment.

Unlike CDB or China Eximbank sovereign loans, however, MDB finance does not directly promote procurement of Chinese state-owned enterprises or the BRI (though there are latent advantages, such as commercial intelligence for domestic firms). Nor has it been a major channel for RMB internationalisation, though some small MDBs have made some limited use of RMB. Only after

the recent creation of the MCDF has there been an explicit structural link drawn between the BRI and the AIIB, which may reflect a desire by Chinese actors to integrate more multilateral participation into the oft-criticised initiative. This comes in a period when, since 2015, there has been a growing backlash – both international and domestic – against China’s overseas lending. Greater exchange of best practice from multilateral actors could improve the BRI’s risk management for projects.

Learning and socialisation. Another driver behind China’s MDB engagement has been capacity-building. Several informants described China’s experience in MDBs as a learning process and experimental. Membership in major and small MDBs gave China valuable international exposure, particularly in the early period of its integration with the global economy, and a means of capacity-building for personnel from the PBOC and MOF. This has been a channel of socialisation into international standards and best practice, and a means to develop human capital in bureaucracies, from which the creation of the AIIB, for example, has benefitted. Following the creation of the NDB and the AIIB, the MOF in particular has taken an ascendant role in China’s wider MDB engagement and representation.

However, there is still a stark institutional divide between China’s multilateral and bilateral finance structures which, along with the foreign aid bureaucracies, remain organisationally divided and insular. Despite their far larger footprint in the developing world, bilateral policy banks have a relative lack of international experience compared with the multilateral-facing bureaucracies, which is a key institutional weakness.

Support for global governance. China’s engagement with MDBs undoubtedly furthers its own strategic agenda and national interests.

Nevertheless, at least some factions within the Chinese administration clearly view multilateralism as a useful way to address global challenges in cooperation with other nations. These two types of motivations are not contradictory, and are equally present in the relationship of other major shareholder countries with MDBs. Under President Xi Jinping, there has been a growing emphasis in its policy discourse and actions on China's role in global governance, and its role in MDBs form part of the broader move of China in the last decade to become more involved in global affairs.

There is clear support from China's leadership for MDB regimes within the international order, and they are viewed as valuable actors in global development. Participation in MDBs is an important source of legitimacy for China as a responsible global power, and China's role on the MDB boards, according to informants, has been careful and generally cooperative. Even after creating new MDBs, China has not sought to undermine existing institutions, and its investment and participation in them has not diminished; contributions to the IDA and other development funds within major MDBs (while meagre relative to China's size) have continued to grow.

6.2 Policy implications

Multilateral finance is only one facet of China's growing global role, but it is an important one and offers a forum for cooperation and mutual learning. This section distils some key policy implications and recommendations of relevance to policy-makers in developing and developed countries, as well as to MDB staff, other development professionals, civil society organisations and Chinese authorities themselves. The points below are not intended as specific recommendations, but rather as

principles that should inform discussions on formulating strategies and policies related to China's role in MDBs.

Encourage greater core financing to MDBs.

China's contributions of substantial financial resources to existing and new MDBs should be applauded, rather than viewed with automatic suspicion. MDB shareholders and management should seek ways to allow China to contribute more resources, particularly the hard currency reserves of the PBOC. In part, this means continuing the ongoing negotiations to increase China's shareholding at the major MDBs, particularly the World Bank and the ADB. Greater openness on the part of G7 shareholders to creative solutions such as hybrid capital or new share classes with reduced voting power could allow China (as well as other official institutional investor reserves, such as Norway's sovereign wealth fund or Japan's public pension fund) to boost the financial capacity of the major MDBs.

Increase China's contributions to MDB concessional funds for low-income countries.

Chinese authorities would be advised to step up the country's commitment to addressing global poverty and social issues. Not everything is a 'win-win'. China has contributed minimally to concessional lending windows for the poorest countries, especially considering the huge financial reserves at its disposal. China should direct substantially more resources to help the poorest of the poor, not just through economic growth but also through direct donations. This would put China in a much stronger position as it seeks to increase its role in the major MDBs.

Draw lessons from new MDBs. On issues of global development finance norms, such as safeguards, policy conditionality and lending priorities, China in many ways represents the views

of many developing country governments, and has the geopolitical clout to help find compromises. The AIIB is an illustration of how negotiation and reform can occur, and its experience demonstrates that norms can not only be upheld, but also reshaped in line with developing country interests without becoming a ‘race to the bottom’. This approach – avoiding polarising positions and seeking a middle ground that recognises the legitimacy of both points of view – can point the way to reform for other MDBs.

Increase support for borrower-led MDBs.

Smaller MDBs have considerable potential in a post-Bretton Woods world, as the recent very strong growth of CAF and the TDB shows. China’s shareholding and credit support has been a positive means to strengthen these banks further and leverage their very strong local knowledge and relationships. At the same time, borrower-led MDBs should continue to engage with traditional development actors on areas related to transparency, project quality and sustainability, and to diversify sources of finance. China, for its part, should continue its low-key approach of supporting these MDBs without attempting to use its leverage for short-term commercial or geopolitical gain.

Build on China’s support for MDBs to promote a cooperative role in global governance.

China’s engagement with MDBs is driven by a mixture of self-interest and a genuine desire to cooperate to address global challenges. This is analogous to the role of the US in the wake of the Second World War, when it drove the creation of the Bretton Woods institutions partly for its national interest, but also to promote global stability and growth. Similarly, China is today pursuing not only its own interests, but also longer-term global economic growth that benefits other countries. External actors should recognise this mix of motivations: while guided by national interest, not all China’s actions are purely self-serving. External actors should also be sensitive to different currents within China and seek to work with those who are more supportive of multilateral engagement. MDBs by their nature are cooperative institutions and can provide promising platforms to tackle issues of mutual interest such as sustainable infrastructure, climate change and recovery from the Covid-19 crisis. Leveraging on China’s openness to work with other countries through MDBs is a promising channel to encourage greater Chinese cooperation in facing the challenges of the coming decades.

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Appendix 1 List of interviews

Former IDB senior management at time of co-financing fund creation, interviewed 17 February 2021.

Former AfDB senior management at time of co-financing fund creation, interviewed 22 January 2021.

Former IFC senior management at time of co-financing fund creation, interviewed 21 January 2021.

Chinese delegate to different MDBs over past decade, including one of those with a Chinese co-financing fund, 17 March 2021.

IDB Invest current operations management, 3 March 2021.

Former staff of regional MDB, interviewed 4 February 2021.

Representative of regional MDB, interviewed 18 February 2021.

Representative of regional MDB, interviewed 19 March 2021.

Three senior EBRD management, interviewed jointly 18 January 2021.

Senior manager of Trade and Development Bank Group, interviewed 24 February 2021.

Expert based in China, interviewed 3 March 2021.

Expert based in China, interviewed 2 March 2021.

Appendix 2 List of banks with Chinese shareholding and lending

MDB	Member since	Share-holding	PRC body	Trust funds and other contributions	Co-financing funds	Lines of credit and other lending
New Development Bank (NDB)	2014	20%	MOF	\$4 million contribution to the Project Preparation Fund (2017) ¹		
Asian Infrastructure Investment Bank (AIIB)	2015	26.59%	MOF	\$50 million contribution to the Project Preparation Special Fund (2016) ²		
World Bank Group	1945 (as ROC, replaced by PRC in 1980)	4.72% (IBRD)	MOF	<p>\$50 million to the China World Bank Group Partnership Facility (CWPF)(2015)³</p> <p>China also contributes to: Global Infrastructure Facility; South–South Experience Exchange Facility; Consultative Group on International Agricultural Research; Global Environmental Facility; Global Fund for AIDS, Tuberculosis and Malaria; and Women’s Entrepreneurship Financing Initiative.</p>		
World Bank – IFC	1969 (as ROC, replaced by PRC in 1980)	2.30%	MOF	\$1.2 billion to the China-Mexico Fund (2015) ⁴ (under the International Finance Corporation’s Asset Management Company), directed to two projects in the energy sector (midstream oil and gas) and in telecoms.	\$3 billion to the Managed Co-lending Portfolio Program (MCP) (2013), ⁵ IFC syndication platform launched in 2013. As of 2018, it has raised \$7 billion from eight global investors.	

MDB	Member since	Share-holding	PRC body	Trust funds and other contributions	Co-financing funds	Lines of credit and other lending
Asian Development Bank (ADB)	1986	5.44%	MOF	<p>\$90 million to The People's Republic of China Poverty Reduction and Regional Cooperation Fund (2005),⁶ with \$58.14 million approved for 106 projects. \$10 million earmarked for Covid relief activities in Apr 2020.</p> <p>China also contributes to other ADB trust funds, including: Credit Guarantee and Investment Fund; the Asian Development Fund, the Technical Assistance Special Fund; and the ADB Institute Special Fund.</p>		\$1.5 billion co-financing agreement with China Eximbank in 2009 earmarked over 3 years for ADB projects. ⁷
African Development Bank	1985	1.74%	PBOC		\$2 billion to Africa Growing Together Fund (AGTF)(2014) ⁸ over 10 years, to support 'sovereign and non-sovereign guaranteed development projects' totalling \$200 million annually.	
European Investment Bank (EIB)	/	/	/		\$500 million to China-EU Co-Investment Fund (2018), ⁹ jointly backed by European Investment Fund and Silk Road Fund.	

MDB	Member since	Share-holding	PRC body	Trust funds and other contributions	Co-financing funds	Lines of credit and other lending
European Bank for Reconstruction and Development (EBRD)	2016	0.096%	PBOC	<p>\$44 million to the Chernobyl Shelter Fund,¹⁰ beginning in 2011¹¹</p> <p>China also subscribes to the Equity Participation Fund (2016)¹²</p>		
Inter-American Development Bank (IDB)	2009	0.004%	PBOC	<p>China has contributed to other funds including: Fund for Special Operations (\$125 million in 2012); and \$350 million in 2008 across the Inter-American Investment Corporation (IIC) Equity Fund; Multilateral Investment Fund; and the Fund for Increasing Productivity and Promoting Inclusive Economic Growth.¹³</p> <p>\$150 million contribution to an investment platform launched by IDB and China Eximbank (2012) to mobilise \$1 billion of funds for equity investments in Latin America in 2012. IDB will contribute \$150 million to match China Eximbank.¹⁴</p>	\$2 billion to the China Co-financing Fund for Latin America and the Caribbean to support public and private sector projects promoting sustainable economic growth in the region. ¹⁵	

MDB	Member since	Share-holding	PRC body	Trust funds and other contributions	Co-financing funds	Lines of credit and other lending
African Export Import Bank (Afrexim-bank)	1993	5.48% (class C)	China Eximbank	\$1 billion to the China-Africa Investment and Industrialisation Programme from Chexim to construct industrial zones and special economic zones (SEZs) in Africa. ¹⁶		<p>\$500 million syndicated term loan with China Eximbank (2019) over 5 years.</p> <p>\$500 million from CDB on-lending facility (2018).¹⁷</p> <p>\$350 million loan facility signed with BOC (2018).¹⁸</p> <p>\$250 million syndicated term loan facility with China Eximbank (2016), with \$50 million bilateral loan facility, coordinated by Standard Chartered Bank.¹⁹</p> <p>\$100 million credit line from China Eximbank (2009).</p>
West African Development Bank (BOAD)	2004	1.09% (class B)	PBOC			<p>\$125 million credit line from CDB (2014).</p> <p>€60 million credit line from CDB (2011).²⁰</p>
Central African States Development Bank (BDEAC)	/	/	/			€40 million credit line from CDB (2016). ²¹
Trade and Development Bank (TDB)	2000	7.1% of total (5.48% class A shares; 11.9% class B shares)	PBOC			<p>\$250 million loan from China Eximbank for 2016–2021.²²</p> <p>\$122 million from CDB (2008), maturing in 2020.²³</p> <p>\$8 million short-term facility from BOC.²³</p>
East African Development Bank (EADB)	/	/	/			<p>\$30 million from CDB.</p> <p>CDB also offered a line of credit of \$30 million to EADB in the mid-2000s.²⁴</p>

MDB	Member since	Share-holding	PRC body	Trust funds and other contributions	Co-financing funds	Lines of credit and other lending
Caribbean Development Bank (Caribank)	1998	5.58%	PBOC	\$54.58 million contributed to the Unified Special Development Fund since 1998. ²⁵		
Eurasian Development Bank (EDB)	/	/	/			RMB 1.5 billion (\$230 million) loan from China Eximbank (2020). ²⁶

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