Industrial policy and the New Development Bank (NDB)

Professor P. S. Srinivas
East Asian Institute, National University of Singapore

January 10, 2025

Presentation at

The International Conference on

"Navigating Challenges: Industrial Policy, Competitiveness, and Development"

Outline

- China's evolving role in Multilateral Development Banks (MDBs)
- ► China's role in the New Development Bank (NDB)
- ► NDB's support for industrial policy

Based on "New Development Bank's role in the global financial architecture" by Bert Hofman and P. S. Srinivas, Global Policy Journal, May 2024, https://onlinelibrary.wiley.com/doi/10.1111/1758-5899.13389

China's evolving role in MDBs

- Began in 1980 and has evolved hugely since
- Multiple roles as a shareholder, donor, borrower, and recipient of contracts
- Influences global financial governance within existing institutions
- ► Led the establishment of two new MDBs the Asian Infrastructure Investment Bank (AIIB) and the NDB
 - Experimenting with new approaches to governance in new institutions

China's roles in MDBs (1)

- ▶ Member of 17 global and regional financial institutions, in addition to the IMF
- China as a shareholder
 - Second in terms of voting power (≈ 8%; US ≈ 14%; Japan ≈ 7%; >> other G7)
 - ► Third largest quota share in IMF (behind US and Japan)
- China as a donor and financing partner
 - ▶ 5th largest donor to Asian Development Fund (ADB)
 - ▶ 6th largest donor to the International Development Association (World Bank)
 - ▶ 12th largest donor to the African Development Fund (AfDB)
 - Contributor to several special-purpose trust funds managed by MDBs
 - ► Co-investment partnership arrangements with IFC and AfDB

China's roles in MDBs (2)

- China as a borrower
 - Consistently one of the top 5 borrowers from World Bank and ADB, till recently
 - Second largest borrower from NDB
 - Also borrows from AIIB
- China as a recipient of MDB contracts
 - Chinese firms won the most contracts by number (more than 20% by value) of those financed by the World Bank in all years but one during 2010-2020
 - ▶ More than half these contracts for work outside China
 - ► At or near the top of contract recipients from other MDBs

Key features of China's evolving role in MDBs

- China's voice in established institutions of global financial architecture not representative of changed economic reality
 - Limited progress in reforming governance (i.e., increasing China's shareholding) of established financial institutions
 - ▶ Vote share under-represented (Table 1)
- Contributions to special-purpose funds and membership of several smaller regional MDBs increased China's engagement in MDBs and global development
- Establish new MDBs AIIB and NDB

China and international financial institutions

Table 1: Shares in the World Economy and in MDBs: Developed and large developing countries and comparators													
	Share in GDP (US\$)		Share in GDP (\$ PPP)		Shareholding in IBRD		Quota Share in IMF		Shareholding in ADB		Shareholdi ng in AIIB	Shareholdi ng in NDB	
	1990	2021	1990	2021	1990	2020 ^b /	1990	2023	1990	2023	2023	2023	
S	26.2	24.2	20.3	15.7	16.95	16.77	20.04	17.43	14.8	15.6			
hina	1.6	18.4	3.8	18.6	2.87	6.01	2.67	6.4	7.1	6.4	26.6	18.98	
apan	13.8	5.1	8.4	3.6	8.12	7.2	4.7	6.47	14.8	15.6			
ermany	7.8	4.4	5.3	3.3	4.63	4.27	6.04	5.6	4.8	4.3	4.2		
ıdia	1.4	3.3	3.6	7	2.87	3.07	2.5	2.75	7	6.3	7.6	18.98	
K	4.8	3.2	3.3	2.3	4.44	3.78	6.93	4.23	2.2	2	2.9		
rance	5.6	3.1	3.5	2.4	4.44	3.91	5.01	4.23	2.6	2.3	3.2		
ussia	2.3	1.8	4	3.3	2.87	2.85		2.71			6	18.98	
razil	1.7	1.7	3.4	2.4	2.13	2.35	1.6	2.32			0.2	18.98	
outh frica	0.5	0.4	0.9	0.6	0.86	0.75	1	0.64			a/	18.98	
RICS	7.5	25.6	15.7	31.9	11.6	15.03		14.82				94.9	
hinal le	ina coan rmany dia ance ssia azil uth	1990 26.2 ina 1.6 ban 13.8 rmany 7.8 dia 1.4 4.8 ance 5.6 ssia 2.3 azil 1.7 uth 0.5	Share in GDP (US\$) 1990 2021 26.2 24.2 ina 1.6 18.4 ban 13.8 5.1 rmany 7.8 4.4 dia 1.4 3.3 d. 4.8 3.2 ance 5.6 3.1 assia 2.3 1.8 azil 1.7 1.7 uth orica 0.5 0.4	Share in GDP (US\$) Share in G 1990 2021 1990 26.2 24.2 20.3 ina 1.6 18.4 3.8 ban 13.8 5.1 8.4 rmany 7.8 4.4 5.3 dia 1.4 3.3 3.6 d. 4.8 3.2 3.3 ance 5.6 3.1 3.5 ssia 2.3 1.8 4 azil 1.7 1.7 3.4 uth orica 0.5 0.4 0.9	Share in GDP (US\$) Share in GDP (\$ PPP) 1990 2021 1990 2021 26.2 24.2 20.3 15.7 ina 1.6 18.4 3.8 18.6 ban 13.8 5.1 8.4 3.6 rmany 7.8 4.4 5.3 3.3 dia 1.4 3.3 3.6 7 4.8 3.2 3.3 2.3 ance 5.6 3.1 3.5 2.4 assia 2.3 1.8 4 3.3 azil 1.7 1.7 3.4 2.4 uth rica 0.5 0.4 0.9 0.6	Share in GDP (US\$) Share in GDP (\$ PPP) Shareholdi 1990 2021 1990 2021 1990 26.2 24.2 20.3 15.7 16.95 ina 1.6 18.4 3.8 18.6 2.87 ban 13.8 5.1 8.4 3.6 8.12 rmany 7.8 4.4 5.3 3.3 4.63 dia 1.4 3.3 3.6 7 2.87 d. 4.8 3.2 3.3 2.3 4.44 ance 5.6 3.1 3.5 2.4 4.44 ance 5.6 3.1 3.5 2.4 4.44 axisia 2.3 1.8 4 3.3 2.87 azil 1.7 1.7 3.4 2.4 2.13 uth rica 0.5 0.4 0.9 0.6 0.86	Share in GDP (US\$) Share in GDP (\$ PPP) Shareholding in IBRD 1990 2021 1990 2021 1990 2020b/ 26.2 24.2 20.3 15.7 16.95 16.77 ina 1.6 18.4 3.8 18.6 2.87 6.01 ban 13.8 5.1 8.4 3.6 8.12 7.2 rmany 7.8 4.4 5.3 3.3 4.63 4.27 dia 1.4 3.3 3.6 7 2.87 3.07 d. 4.8 3.2 3.3 2.3 4.44 3.78 ance 5.6 3.1 3.5 2.4 4.44 3.91 ssia 2.3 1.8 4 3.3 2.87 2.85 azil 1.7 1.7 3.4 2.4 2.13 2.35 outh rica 0.5 0.4 0.9 0.6 0.86 0.75	Share in GDP (US\$) Share in GDP (\$ PPP) Shareholding in IBRD Quota Shareholding in IBRD 2021 1990 2021 1990 2020b/ 1990 26.2 24.2 20.3 15.7 16.95 16.77 20.04 ina 1.6 18.4 3.8 18.6 2.87 6.01 2.67 can 13.8 5.1 8.4 3.6 8.12 7.2 4.7 cmany 7.8 4.4 5.3 3.3 4.63 4.27 6.04 dia 1.4 3.3 3.6 7 2.87 3.07 2.5 4.8 3.2 3.3 2.3 4.44 3.78 6.93 cance 5.6 3.1 3.5 2.4 4.44 3.91 5.01 ssia 2.3 1.8 4 3.3 2.87 2.85 azil 1.7 1.7 3.4 2.4 2.13 2.35 1.6 cuth rica 0.5 0.4 0.9 0.6 0.86 0.75 1	Share in GDP (US\$) Share in GDP (\$ PPP) Shareholding in IBRD Quota Share in IMF 1990 2021 1990 2021 1990 2020 ^b / 1990 2023 26.2 24.2 20.3 15.7 16.95 16.77 20.04 17.43 ina 1.6 18.4 3.8 18.6 2.87 6.01 2.67 6.4 can 13.8 5.1 8.4 3.6 8.12 7.2 4.7 6.47 rmany 7.8 4.4 5.3 3.3 4.63 4.27 6.04 5.6 dia 1.4 3.3 3.6 7 2.87 3.07 2.5 2.75 d. 4.8 3.2 3.3 2.3 4.44 3.78 6.93 4.23 ance 5.6 3.1 3.5 2.4 4.44 3.91 5.01 4.23 assia 2.3 1.8 4 3.3 2.87 2.85 2.71 azil 1.7 1.7 3.4 2.4 2.13 2.35 1.6 2.32 atth rica 0.5 0.4 0.9 0.6 0.86 0.75 1 0.64	Share in GDP (US\$) Share in GDP (\$ PPP) Shareholding in IBRD Quota Share in IMF Sharehold 1990 2021 1990 2021 1990 2020b/ 1990 2023 1990 26.2 24.2 20.3 15.7 16.95 16.77 20.04 17.43 14.8 ina 1.6 18.4 3.8 18.6 2.87 6.01 2.67 6.4 7.1 can 13.8 5.1 8.4 3.6 8.12 7.2 4.7 6.47 14.8 rmany 7.8 4.4 5.3 3.3 4.63 4.27 6.04 5.6 4.8 fina 1.4 3.3 3.6 7 2.87 3.07 2.5 2.75 7 4.8 3.2 3.3 2.3 4.44 3.78 6.93 4.23 2.2 ance 5.6 3.1 3.5 2.4 4.44 3.91 5.01 4.23 2.6 ssia 2.3 1.8 4 3.3 2.87 2.85 2.71 azil 1.7 1.7 3.4 2.4 2.13 2.35 1.6 2.32 otherica 0.5 0.4 0.9 0.6 0.86 0.75 1 0.64	Share in GDP (US\$) Share in GDP (\$ PPP) Shareholding in IBRD Quota Share in IMF Shareholding in ADB 1990 2021 1990 2021 1990 2020 ^b / 1990 2023 1990 2023 26.2 24.2 20.3 15.7 16.95 16.77 20.04 17.43 14.8 15.6 ina 1.6 18.4 3.8 18.6 2.87 6.01 2.67 6.4 7.1 6.4 ban 13.8 5.1 8.4 3.6 8.12 7.2 4.7 6.47 14.8 15.6 rmany 7.8 4.4 5.3 3.3 4.63 4.27 6.04 5.6 4.8 4.3 dia 1.4 3.3 3.6 7 2.87 3.07 2.5 2.75 7 6.3 dia 1.4 3.3 3.6 7 2.87 3.07 2.5 2.75 7 6.3 dia 1.4 3.3 3.5 2.4 4.44 3.91 5.01 4.23 2.2 2 ance 5.6 3.1 3.5 2.4 4.44 3.91 5.01 4.23 2.6 2.3 assia 2.3 1.8 4 3.3 2.87 2.85 2.71 azit 1.7 1.7 3.4 2.4 2.13 2.35 1.6 2.32 azit 1.7 1.7 3.4 2.4 2.13 2.35 1.6 2.32 azit 1.7 1.7 3.4 0.9 0.6 0.86 0.75 1 0.64 azit 0.5 0.4 0.9 0.6 0.86 0.75 1 0.64	Share in GDP (US\$) Share in GDP (\$ PPP) Shareholding in IBRD Quota Share in IMF Shareholding in ADB Shareholding in AIB 1990 2021 1990 2021 1990 2020*/ 1990 2023 1990 2023 2023 26.2 24.2 20.3 15.7 16.95 16.77 20.04 17.43 14.8 15.6 ina 1.6 18.4 3.8 18.6 2.87 6.01 2.67 6.4 7.1 6.4 26.6 ban 13.8 5.1 8.4 3.6 8.12 7.2 4.7 6.47 14.8 15.6 rmany 7.8 4.4 5.3 3.3 4.63 4.27 6.04 5.6 4.8 4.3 4.2 dia 1.4 3.3 3.6 7 2.87 3.07 2.5 2.75 7 6.3 7.6 4.8 3.2 3.3 2.3 4.44 3.78 6.93 4.23 2.2 2 2.9 ance 5.6 3.1 3.5 2.4 4.44 3.91 5.01 4.23 2.6 2.3 3.2 ssia 2.3 1.8 4 3.3 2.87 2.85 2.71 6 axid 1.7 1.7 3.4 2.4 2.13 2.35 1.6 2.32 6 axid 0.5 0.4 0.9 0.6 0.86 0.75 1 0.64	Share in GDP (USS)

Sources: World Development Indicators; Various World Bank Annual Reports; IMF Various Documents on Quota Allocation and Reforms and financial database at: https://www.imf.org/external/np/fin/tad/query.aspx; ADB Annual Reports 2020 and 1990; AIIB, NDB Websites.

Notes:

a/ South Africa is a prospective (founding) member of the AIIB.

b/ Post 2018 allocation

China's role in NDB

- Established by the BRICS countries in 2015
- Experiment in global financial governance with several differences from other institutions
 - ► China as an equal partner all BRICS countries have equal shareholding
 - ▶ No member has veto
 - Rotating Presidency
 - ► Gradual membership expansion
- Experiment in operational procedures
 - Speed of project processing
 - Usage of country systems for procurement and environmental and social aspects
 - Local currency lending

NDB's lending

- NDB finances infrastructure and sustainable development projects in its member countries
- ▶ As of June 30, 2024, 107 projects approved for US\$ 36 billion
- ► China second largest borrower with 25% of total loans
- Transport infrastructure (40%) and clean energy/energy efficiency (9%) largest exposures
 - ► COVID-19 related one-off support forms 27% of portfolio
- 2/3rds of financing in USD; rest in multiple currencies including INR, ZAR, and RMB

NDB's support for China's industrial policy (1)

- Projects broadly support improved competitiveness and economic development
 - Limited direct support to areas of China's industrial policy priorities
- Indirectly, though, some projects support China's industrial policy
 - ► For eg: NDB financed the Putian Pinghai Bay Offshore Wind Power Project in 2016 (operational in 2021)
 - "... the Project has generated benefits by nurturing a wellestablished turbine manufacturing base that could ... support sector development.."
 - Financed industrial parks, logistics, and transport networks

NDB's support for China's industrial policy (2)

- NDB's role in supporting China's industrial policy could change in future
- China can serve developing country markets for its EVs, batteries, and solar energy equipment
 - Especially if US and European markets continue to be difficult to access
- NDB member countries, among other developing countries, need help with their own climate ambitions
 - ▶ NDB's focus on financing infrastructure and sustainable development, with procurement focused on its member countries, could be a logical forum to promote China's EV and renewable energy industries in its member countries
 - India could arguably become more attractive economically with recent thaw in bilateral relations and expected overtaking of Japan as fourth largest economy

Conclusion

- China recognizes the importance of MDBs and is willing to invest in/engage with them to influence global economic governance
- China is willing to support experimentation and innovative approaches in the new MDBs in which it has a leadership role
- NDB successfully established, outcomes of innovative approaches to be seen
 - Explicit support to China's industrial policy thus far has been limited but could change in future