Industrial policy and the New Development Bank (NDB)

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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		Shareholding in AIIB	Shareholding in NDB
	1990	2021	1990	2021	1990	2020[b/]	1990	2023	1990	2023	2023	2023
US	26.2	24.2	20.3	15.7	16.95	16.77	20.04	17.43	14.8	15.6	--	--
China	1.6	18.4	3.8	18.6	2.87	6.01	2.67	6.4	7.1	6.4	26.6	18.98
Japan	13.8	5.1	8.4	3.6	8.12	7.2	4.7	6.47	14.8	15.6	--	--
Germany	7.8	4.4	5.3	3.3	4.63	4.27	6.04	5.6	4.8	4.3	4.2	--
India	1.4	3.3	3.6	7	2.87	3.07	2.5	2.75	7	6.3	7.6	18.98
UK	4.8	3.2	3.3	2.3	4.44	3.78	6.93	4.23	2.2	2	2.9	--
France	5.6	3.1	3.5	2.4	4.44	3.91	5.01	4.23	2.6	2.3	3.2	--
Russia	2.3	1.8	4	3.3	2.87	2.85	..	2.71	--	--	6	18.98
Brazil	1.7	1.7	3.4	2.4	2.13	2.35	1.6	2.32	--	--	0.2	18.98
South Africa	0.5	0.4	0.9	0.6	0.86	0.75	1	0.64	--	--	--[a/]	18.98
BRICS	7.5	25.6	15.7	31.9	11.6	15.03		14.82	--	--		94.9

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 well-established 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