Foster Synergy among MDBs, Advance the Belt and Road Initiative

Yang Shaolin

Director-General, Department of International Economic and Financial Cooperation, Ministry of Finance, PRC

The Belt and Road initiative (the “Silk Road Economic Belt”, and the “21st Century Maritime Silk Road” in full), was first put forth by Chinese President Xi Jinping during his visits to Central Asia and Southeast Asia in September and October 2013. The initiative quickly caught the attention of the world. At the China–ASEAN Expo in 2013, Chinese Premier Li Keqiang emphasized the need to build the Maritime Silk Road oriented toward ASEAN, and to create strategic propellers for hinterland development. Accelerating the initiative can help boost economic prosperity of countries along the Belt and Road, promote regional economic cooperation, enhance exchanges and mutual learning between different civilizations, and contribute to world peace and development. In sum, it is a great undertaking that will benefit people around the world. In March 2015, the Chinese Government released the Vision and Actions on Jointly Building Silk Road Economic Belt and the 21st Century Maritime Silk Road, a blueprint that serves to set into motion the great undertaking.

The Belt and Road represents an economic corridor covering the largest swathe of areas ever in the world, encompassing over 60 countries, covering a combined population of 4.4 billion producing $21 trillion of aggregate economic output, accounting for 63% and 29% of the global total respectively. The countries along the Road and Belt have abundant natural and human resources, yet their population and GDP as a share of the global total are misaligned, which all but speaks of the tremendous potentials of the countries covered by the Initiative.

Countries along the Belt and Road have their own resource advantages and their economies are mutually complimentary. Therefore, there is a great potential and space for cooperation, aiming at achieving five major goals, i.e. policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds. Among the five goals, facilities connectivity is a priority area for implementing the Initiative, as it provides the hardware basis for realizing the other goals, while mobilizing more financial resources guarantees smooth exchanges and deepened integration in various sectors.

In order to fund the efforts under the Initiative to promote regional connectivity and productive capacity cooperation among related countries, in particular to advance infrastructure and large-scale

projects, China has been engaging with the existing Multilateral Development Banks (MDBs) while working to establish new ones. This will help unleash the comparative advantages of various countries in natural, capital, industrial development and human resources, so as to cultivate synergy, and promote win-win cooperation in infrastructure connectivity and regional integration.

I. Tremendous demand for infrastructure investment in Belt and Road countries, with big financing gap to be addressed

Infrastructure such as transportation facilities, energy utilities and communication networks is the key to successful implementation of the Belt and Road initiative. As the countries along the route comprise a large number of developing countries and vary significantly in terms of economic and social development stage, the following aspects must be attended to: cross-border traffic corridor and transit point constructions such as railway, road, port and airport; energy and resource exploration, and communications infrastructure development. Booming economic growth, expanding trade ties and burgeoning middle-class on the back of growing population combined to fuel demand for infrastructure. Yet in many countries, various indicators suggest considerable financing gap in infrastructure sectors. The coverage of railway, road and air networks, power consumption per capita, mobile and internet penetration all fall short of world average level, which heralds tremendous space for growth. According to a study by the International Monetary Fund, for less developed countries, every 1% increase in infrastructure related budget may generate 3% increase in GDP over the next 4 years. In this sense, underinvestment in infrastructure, if not addressed, may present a major obstacle for continued economic growth of countries along the Belt and Road route.

In Transformation through Infrastructure, a World Bank report in 2012 on infrastructure development for 2012-2015, findings showed that East Asia and the Pacific Rim, two areas that cover most of the Belt and Road route countries, were in need of $406.7 billion for infrastructure investment. Even with public and private capital contribution, the funding gap still runs up to $199.7 billion. The Asian Development Bank (ADB) estimated that Asian economies would need to invest $8 trillion in 2010-2020 to develop infrastructure in order just to level the world average, and the commitment of existing MDBs in Asian infrastructure development falls far short of demand. In the meanwhile, according to a study on selective economies about the dynamics between GDP growth, economic output and infrastructure investment relative to GDP, between 2015-2019, accumulative infrastructure investment in key countries along the Belt and Road route will add up to $3 trillion. Though differing in methodology and statistics, the studies all underscore the significant demand and the dire need of investment in infrastructure in the Belt and Road countries.

On the capital supply side, Belt and Road countries face several constraints. For the public sector, some countries face chronic underinvestment in infrastructure due to insufficient fiscal space, while in other cases, where fiscal revenues fluctuate with major commodity price swings, such as commodity-reliant economies, financial input into infrastructure is often disrupted. For the private sector, in spite of the high savings rate in East Asia and other countries along the Belt and Road, private capitals are reluctant to get involved in infrastructure sector for many reasons. First, projects on railways, roads, ports, energy, resources, telecommunications etc. are capital-intensive, and require patient capital over a long horizon, while investment returns are prone to fluctuations. Second, market environments in some countries are unstable, compounded by inadequate investment and financing regimes. So in sum, there is a need to catalyze and spur private capital for infrastructure investment.

Therefore, in order to “debottleneck” infrastructure development to promote regional integration, we should first intensify capital input, put in place effective financing regime and platform, and tap into

and mobilize the private capital to participate in infrastructure investment. On this score, MDBs with unique advantages are properly positioned to play a distinctive role.

II. Leverage the existing MDBs to advance the Belt and Road Initiative

MDBs refer to international institutions initiated and established by sovereign countries, with a mandate to provide support and assistance to the economic and social development of developing countries at the regional or global level, in the form of concessional loans, grants, equity investment, policy advice, research and analysis, technical assistance etc. The World Bank and the ADB are key partners for China in its development undertakings. As two major MDBs dedicated to poverty reduction at both regional and global levels, the World Bank and the ADB recognize supporting infrastructure investment in developing countries as the key to achieving economic growth and meeting poverty reduction goals.

With regard to infrastructure financing, MDBs are in a position to provide loans with long maturities, low interest rates, and favorable terms. These financing facilities, while providing low-cost funding to individual projects, can also improve the debt structure of the public sector in the borrowing countries, and galvanize private capital participation through Public Private Partnership (PPP) among others. On knowledge sharing and capacity building, the MDBs are committed to disseminating advanced knowledge, concepts, experiences and know-how over the course of project cycle, and help the recipient countries in economic institutional reforms and human resources development. To illustrate the function of the MDBs with an analogy—if financing provision to cash-strapped countries is “blood transfusion”, then knowledge sharing, dissemination of advanced concepts and institutional innovation is to build “blood making” capacity that will help recipient countries and regions cultivate staying power to sustain their development and growth.

Under such circumstances, the MDBs can leverage their capital and intellectual strength in infrastructure development while collaborating with countries under the Belt and Road initiative. Through project financing and knowledge sharing, MDBs will not only provide capital support for specific projects, but also help to spur sustainable economic and social development.

China, for one, is a beneficiary of the partnership with MDBs. Since its Reform and Opening up, China has benefited significantly from the support of the World Bank and the ADB. Over the past few decades, China has built a cooperation model that features partnership based on mutual support and mutual benefits with the World Bank and the ADB. The World Bank and the ADB has made important contributions to China’s development by means of loan provision, knowledge sharing and development cooperation. In turn, China has contributed to the World Bank and the ADB’s mission through capital contribution, experience sharing and active participation in the banks’ reforms and decision making process, with an aim to help the banks better fulfill the mission of poverty reduction and development promotion. As China’s overall strength further increases, we are in a better position to contribute more to the cause of development. As a key shareholder of both the World Bank and the ADB, China will continue to support the two institutions and other existing MDBs in their efforts to improve lending capacity and reform institutional structures in order to fund infrastructure undertakings in Belt and Road countries through direct project financing, while in the meantime working to advance cooperation between Belt and Road countries and the MDBs in capacity building and knowledge sharing.

China has signed an agreement with the World Bank to establish a $50 million trust fund to end poverty and promote development, out of which $20 million is dedicated to the Global Infrastructure Facility initiative proposed by the World Bank in 2014. Under the ADB, the People’s Republic of China Poverty Reduction and Regional Cooperation Fund was established in March 2005 with a $20 million contribution from China and was replenished in April 2012 with another $20 million, making

China’s total contribution to US$40 million.

In Asia, China has also been actively working with the ADB to promote regional connectivity development. Two regional cooperation mechanisms initiated by the ADB, the Greater Mekong Subregion (GMS) Program and the Central Asia Regional Economic Cooperation (CAREC) Program, cover important countries on the Belt and Road route. These two Programmes are highly aligned with the Belt and Road initiative in terms of priority areas, and thus present an important platform for advancing the Belt and Road initiative. The CAREC Institute, as a virtual knowledge sharing platform initiated by the ADB, has been in process of transferring into an intergovernmental organization headquartered in China. China, together with the ADB and CAREC countries, will jointly help formulate the medium and long term development strategy and work plan of the Institute, use the Institute as a platform for countries to share development experiences and concepts, provide quality public goods such as knowledge sharing, capacity building and policy research to ensure these endeavors will deliver concrete benefits to CAREC region.

III. Build New MDBs to Inject Fresh Momentum to Belt and Road Initiative

As the initiator and key shareholder, China has been leading the efforts to establish the Asian Infrastructure Investment Bank (AIIB), and jointly with other BRICS countries to set up the BRICS New Development Bank (NDB). The AIIB is mandated to promote regional infrastructure development and economic growth in Asian region. Geographical coverage of the AIIB overlaps largely with countries along the Belt and Road. It embodies a major initiative of China to assume more international responsibility, aiming to complement with and improve the existing international economic system. Since the AIIB initiative was put forth by the Chinese leadership in October 2013, it has been enthusiastically received by countries in Asia and beyond. The Prospective Founding Members of the AIIB have added up to 57, spanning five continents from Asia, Oceania, Europe, Latin America to Africa. In June this year, the Articles of Agreement of the AIIB was signed in Beijing, thus paving the way for its inauguration and early operation.

Meanwhile, the NDB as a multilateral development bank established by BRICS economies, is mandated to support infrastructure development, thus unwinding some long-time obstacles to development for developing and emerging economies. It will also spur industrial upgrading and shore up the real economy, so as to inject new momentum into global economic recovery. At the Sixth BRICS Summit on July 15th, 2014, the Agreement on the New Development Bank was signed. On July 21st, 2015, the NDB inauguration ceremony was held in Shanghai, China, marking the official launching of the Bank.

The initiative of establishing the AIIB and NDB embodies an innovation in the international development architecture, from the following four aspects.

First, it is an innovation in international economic governance structure. Developing countries account for the majority share (67%) at the AIIB, and the NDB was jointly established by five emerging economies, which better reflects the changes in the international economic and financial architecture, where developing and emerging countries have greater voice vis-à-vis in existing MDBs.

Second, it represents an innovation in development concept. Guided by the spirit of shelving differences while seeking common ground, openness and inclusiveness, mutual benefits and practical cooperation on an equal footing, the AIIB and NDB are tasked to provide concrete support and project-specific solutions to client countries, and ultimately support these countries in their quest for modus operandi and models that suit their distinctive development needs.

Third, it reflects an innovation in financing and investment. As two “late-comers”, the AIIB and

NDB will draw on the lessons and experiences of existing multilateral institutions as part of the efforts to explore new financing channels and vehicles, with a view to improving investment efficiency and contribute to boosting effective demand globally, including in the Belt and Road countries.

Fourth, it leads an innovation in service provision. The AIIB and the NDB are committed to delivering fit-for-purpose services and products for developing and emerging countries, and providing capital and expertise support for these countries in the pursuit of sustainable growth and common prosperity through infrastructure investment.

The AIIB and the NDB, each with its distinctive mandates, are expected to play an active role in advancing the Belt and Road initiative. The two Banks differ in terms of member composition and business focuses--the AIIB will focus on infrastructure investment in Asia, while the NDB aims to mobilize resources for infrastructure and sustainable development projects in BRICS countries and other emerging and developing economies. Complementarity between the two Banks is in order, as both memberships converge with the Belt and Road, with tremendous infrastructure financing need. Going forward, the two Banks can work in collaboration to promote infrastructure investment, galvanize the economic and social potentials of countries along the Belt and Road, thus promoting regional connectivity and integration, and contributing to common development at both regional and global levels.

It merits mentioning that, as new members and new partners in the international development architecture, the AIIB and the NDB are meant to complement, rather than compete with, the existing MDBs. Both as important ways for emerging economies to pursue global infrastructure development and international economic governance reforms, the AIIB and the NDB stand to further bolster and enrich the multilateral development system. Against the backdrop of tremendous demand for infrastructure financing and highly insufficient development funds, the AIIB and the NDB are positive supplement to the existing multilateral development system at regional and global levels, and will make a difference in the global cause of development. History suggests that when regional MDBs such as the ADB, the European Bank for Reconstruction and Development emerged, they did not work at the expense of existing peers. Rather, these newly established institutions have added to the collective strength and influence of the MDBs as a whole. In the same vein, in the spirit of openness, inclusiveness, and win-win cooperation, the AIIB and NDB will work in close collaboration with existing MDBs, bilateral development agencies and the private sector, explore new financing models such as co-financing and PPP, in order to shore up infrastructure financing, and contribute to global economic recovery and sustainable development.

The Belt and Road initiative is designed to cultivate closer economic and trade ties between China and its neighboring countries, as well as between Asian and European countries. It will help deepen regional cooperation and create an enabling environment for development; while internally, it will facilitate efforts to mobilize resources both at home and abroad, and further open up China's economy. All in all, it is an important and grand strategy to align and integrate China's own development with the broader regional development, and thus meets the common aspiration of China and countries along the Belt and the Road. The Belt and Road initiative is a massive and complex systemic endeavor. Infrastructure connectivity as the hardware that underpins the whole strategy can only be materialized with strong financial commitment, which cannot be fulfilled by any single country or bank alone. The solution lies in mobilizing the financial strength of the public sector, private sector and various financial institutions to play their niche roles, and foster synergy in partnership. China supports and encourages both existing and newly established banks to work closely in areas such as project financing, capacity building, and knowledge sharing, and stands ready to work with countries and institutions alike to advance the Belt and Road initiative, so as to promote regional connectivity and integration, foster synergy and deliver win-win outcomes for all.