

China: Banking on a new international financial institution



©Rights reserved, Shanghai Development Research Foundation

Interview: Yide Qiao

Secretary-General, Shanghai Development Research Foundation

In October 2014 China launched the Asian Infrastructure Investment Bank (AIIB), drawing wide international attention. Nearly 60 countries have joined the new international financial institution, including several OECD member and partner countries, though others have remained cautiously outside. What is the purpose of the new bank and what impact will it have? We asked Yide Qiao for his views.

I guess there are several reasons for launching the new bank. First, China has accumulated valuable experience and expertise in construction and investment in infrastructure over three successful decades of economic growth and is now willing to extend its knowledge to other developing countries in a systematic way. Second, the Chinese economy is entering a more mature phase in which capital outflows will become inevitable. By setting up new financial institutions, China is clearly keen to make this outflow happen as smoothly as possible. At the same time, it will better use its huge capacity, particularly in the area of infrastructure construction, and use the country's near US\$4 trillion of foreign reserves in diverse and useful ways. Lastly, for well-known reasons, IMF quota and governance reforms have not gone ahead, which has made developing countries unhappy, including China. Therefore, it is natural for China to use its deep pockets to launch the new bank.

The Asian countries need a large amount of investment in infrastructure to overcome the existing gap in this area, while some advanced countries interested in providing their technologies have joined the AIIB. The fact that some other advanced countries were rankled by their joining attracted even more attention.

Over the next few months, major talks begin on development finance, sustainable development goals, climate change. How does the new bank alter the global financial landscape?

I don't believe new institutions such as the AIIB will completely alter the global financial landscape over the next few months, or even years. For a start, they are not very big in terms of capital and will take time to bed in after the establishment procedures are out of the way. Not to mention the fact that new financial institutions need to climb steep learning curves. Having said that, I believe they will acquire a meaningful role in improving what is becoming an exciting global financial architecture, to judge from their claims to be more effective, cleaner and greener. They will learn from and co-operate with the World Bank, the Asian Development Bank (ADB) and so on, but they will not copy everything from them.

How effective do you think the new bank will be? The AIIB is the first international financial institution that gives China a leading role. As far as I am aware, the Chinese officials organising it fully understand how important their responsibilities are and will make every effort to ensure that the AIIB is successful. I

AIIB may not completely alter the global landscape but will acquire a meaningful role in improving the exciting global financial architecture

have seen encouraging signals from traditional multilateral development banks. In October when the new bank was launched, the World Bank Group created the Global Infrastructure Facility (GIF)—a global open platform—that will facilitate the preparation and structuring of complex public-private partnerships to mobilise private sector and institutional investor capital, particularly for infrastructure. At a recent meeting in Baku, the capital of Azerbaijan, the ADB announced it would blow the dust off an old development fund that was originally launched four decades ago by boosting its annual lending and grant approvals by 50%, to as much as US\$20 billion. It will also set aside money to support public-private partnership projects and work with the AIIB in Asia.

It will be very interesting to watch how these actions play out, and to monitor this co-operation among the development banks. If all goes well, the outcome will be beneficial not only to developing countries but to the international community as a whole. This is surely the fundamental goal of the AIIB and other new international financial institutions, and all final judgements will be based on that.

Visit www.aiibank.org

For more on the Shanghai Development Research Foundation, visit www.sdrf.org.cn/

Reproduced with permission of the copyright owner. Further reproduction prohibited without permission.