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The New Development Bank and the Asian Infrastructure Investment Bank: China's Ambiguous Approach to Global Financial Governance

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ABSTRACT

The creation of the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) has generated a great deal of attention and controversy in the development community and beyond. Do these banks indicate that China is promoting a new model of multilateral development finance that undermines the existing system dating back to Bretton Woods? What are the forces shaping China's policy choices in this area? In contrast to the prevailing tendency to view these banks as part and parcel of the same challenge or opportunity for multilateral development financing, this article highlights major distinctions between the NDB and the AIIB. The fact that China is playing a prominent role in both the NDB and the AIIB suggests that China is not promoting a coherent new model of multilateral development financing, but is instead straddling different traditions in this realm of global financial governance. The ambiguity in China's approach to multilateral development finance is shaped by its multiple identities and complex economic and political interests.

INTRODUCTION

In July 2014, Brazil, Russia, India, China and South Africa — the BRICS — agreed to establish a new multilateral development bank (MDB), the New Development Bank (NDB). In October of the same year, China and 20 other Asian nations signed an agreement to create the Asian Infrastructure Investment Bank (AIIB). The declared aim of both banks was to mobilize

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resources to fill the large gap in infrastructure investment and to promote sustainable development in developing countries. Both attracted a great deal of attention in the development community and beyond. The intensity of the reactions — hopes, fears, pride and anxieties — reached a level rarely seen in the rise and fall of international financial institutions. The initial excitement has subsided somewhat in the last couple of years, but these new MDBs remain near the spotlight on the international stage.

To understand the unusually strong responses to the new MDBs, one has to take into account the recent shift in the global power balance. Since 2000 the share of the BRICS in the world's (nominal) GDP has grown from 8 per cent to 22 per cent. In contrast, the share of the Group of 7 (G7 — Canada, France, Germany, Italy, Japan, United Kingdom and United States) has declined from 65 per cent to 45 per cent. Measured in purchasing power parity (PPP), the BRICS and the G7 now each accounts for roughly a third of global GDP. Moreover, with China hosting the headquarters of both the NDB and the AIIB and playing an important role in their operations, there is a concern that these new MDBs are heavily influenced by China. Indeed, Chinese officials and commentators have described this as the beginning of a new era in international finance, with China playing a greater part in global economic governance. Commenting on the creation of the AIIB, for example, Chinese Finance Minister Lou Jiwei stated that 'This is China assuming more international responsibility for the development of the Asian and global economies' (quoted in Wildau and Clover, 2015). Meanwhile, American opinion leaders have lamented the new MDBs as symbolic of US decline. As former US Treasury Secretary Lawrence Summers put it in early April 2015, following an avalanche of countries applying to join the AIIB: 'This past month may be remembered as the moment the United States lost its role as the underwriter of the global economic system' (Summers, 2015).

A central concern expressed by various observers is whether these China-backed MDBs would pose a threat to the MDBs established under US leadership after World War II (see, for example, Perlez, 2015; Subacchi, 2015). Some observers have gone so far as to suggest that the new MDBs are part of a broader Chinese foreign policy strategy of using parallel structures to systematically challenge the existing international order (Heilmann et al., 2014). Regardless of their assessment of the NDB and the AIIB, most studies tend to lump the two together and contrast their rules and operations with those of the World Bank and other major regional MDBs (Chin, 2015; He, 2016; Reisen, 2015; Wang, 2014a, 2017; Weaver, 2015).

In contrast to the prevailing tendency to view these two banks as part of the same challenge or opportunity for the existing system of multilateral development financing, this article aims to highlight some major distinctions between the NDB and the AIIB. In light of these distinctions, the prominent role played by China in both institutions suggests that China is not promoting a coherent new MDB model. Moreover, the article shows that neither of the new banks represents a clear break from the existing MDBs. In leading the

NDB and the AIIB, China is not offering a brand new model of multilateral development financing: rather, it is straddling different traditions in this realm of global financial governance. The ambiguity in China's approach to multilateral development finance is shaped by its multiple identities and complex economic and political interests.

The article first compares the NDB and the AIIB. It then analyses the connection between these new MDBs and two different traditions of multilateral development finance — one found in mainstream MDBs dominated by developed/donor countries, and the other in alternative MDBs led by developing/borrower countries. Finally it offers some explanations for the ambiguity of the Chinese approach in this and other areas of global financial governance.

CONTRASTING NDB AND AIIB

The NDB and the AIIB have several common features. As noted earlier, China plays a prominent role in both institutions, hosting their headquarters and acting as an important financial backer. Moreover, as many analysts have pointed out, the NDB and the AIIB both came out of developing economies' frustration with the Bretton Woods institutions (Chin, 2016; Heilmann et al., 2014; Reisen, 2015, Wang, 2017). Developing countries had long sought to gain greater representation at the World Bank and the International Monetary Fund (IMF), but the so-called voice reform in those institutions had been slow and limited. In multilateral development finance, Western dominance of the World Bank and the major regional MDBs shaped the institutions' priorities and operations. For instance, for decades the World Bank had neglected infrastructure funding in favour of poverty relief and 'good governance'. In addition, like the IMF, it imposed conditionality in its lending, seeking to use development financing as a tool to encourage policy change in the borrowing countries. It had also grown into an enormous bureaucracy perceived to be wasteful and inefficient. The founders of the NDB and the AIIB claimed that the new institutions would right these wrongs. The new MDBs would give developing countries greater representation, focus on infrastructure development, leave politics out of lending, and improve efficiency.

Both detractors and supporters of the new MDBs tend to focus on the commonalities between the NDB and the AIIB, treating them as elements of the same challenge or opportunity for multilateral development finance (Heilmann et al., 2014; Wihtol, 2014; World Bank, 2015). However, there are significant differences between the NDB and the AIIB. Cooper (2017) contends that whereas the AIIB has material advantages (e.g. financial resources) over the NDB, the NDB is more innovative than the AIIB (including its green projects and local currency financing). Ye (2017) argues that the NDB has adopted a localizing approach to development finance in contrast to the more internationalist approach of the AIIB. This article builds on these recent studies. In this section, I compare the NDB and the AIIB along several dimensions, including their creation, scale, governance and relationship with traditional MDBs.

Although the NDB and the AIIB came into being around the same time, their origins were quite different. The NDB was first proposed by India. Following the global financial crisis in 2008, Prime Minister Manmohan Singh championed alternative strategies for development financing. In 2010, at the G20 summit in Seoul, Singh proposed a new institutional instrument for fostering infrastructure development. In 2012, the year India hosted the BRICS summit, the idea of a Development Bank emerged from the BRICS Academic Forum. China was initially uncertain about the idea; Chinese commentators questioned the impact of the proposed principle of equality on the bank's performance (Cooper, 2017). In the end, India's proposal received support from all the other members of the BRICS. It was discussed at the following BRICS meetings and ultimately led to the agreement to establish the NDB in July 2014.

In contrast, the AIIB was a unilateral initiative by China. The China Center for International Economic Exchange, a think tank with strong government ties, first developed the idea of such a bank in 2009 (Chen, 2015). It was officially proposed by President Xi Jinping in 2013 on a visit to Indonesia and immediately received a warm welcome in Southeast Asia, where infrastructure development had become a major regional concern in recent years. The first multilateral consultation meeting took place in early 2014 with a number of prospective Asian members participating (Callaghan and Hubbard, 2016). In October 2014 China, along with 20 other Asian countries, signed a memorandum of understanding (MOU) on the establishment of the AIIB.

The NDB and the AIIB are also quite different in scale. The NDB had US$ 50 billion in initial capital subscription while the AIIB began with US$ 100 billion in authorized capital. Moreover, the financial advantage of the AIIB over the NDB will likely continue given the nature and the charters of the two banks. NDB is a development bank owned and controlled by members of the BRICS, all of which are both lenders and borrowers. It is similar to a credit union that pools resources from member countries to fund their development. The NDB's rules impose serious restrictions on its capital stock. According to its Articles of Agreement, its membership is open to all members of the United Nations, but the founding members must maintain 55 per cent of the total shares. Moreover, donor countries as a group cannot exceed 20 per cent of the shares and no single new member can exceed 7 per cent of the shares (NDB, 2014). While preventing donor countries from becoming a powerful voting bloc, this severely limits the potential to expand the bank's capital.

The AIIB, on the other hand, is a financial institution with mixed membership of both developed and developing countries. Developed countries — more likely to be donors than borrowers — contribute financial resources to support the development of the borrower/developing countries. The AIIB began with 57 founding members and, as of June 2018, has accepted 86 members. According to the bank's Articles of Agreement (AIIB, 2015), its membership is open to all members of the International Bank of Reconstruction and Development and the Asian Development Bank. The percentage of capital stock held by regional members must not fall below 75 per cent of the total, although this threshold can be modified to 70 per cent by the Board of Governors. This framework allows many donor countries both inside and outside the region to bring capital to the bank.

While subscribed capital is an important source of an MDB's financial resources, it is not the only source. Over time the shareholder equity will likely grow as the bank adds the returns of its investments to reserves. Another important source of lending for MDBs is borrowing from private capital markets. Backed by many sovereign governments, MDBs can typically borrow easily and cheaply, which in turn enables them to lend on generous terms and still remain sustainable and even profitable. Just how easily and cheaply a bank can raise funds in private capital markets depends critically on its credit rating.

For the NDB, this could be a major constraint, at least in the initial years. Among the member countries, only China has medium to high investment grades in its sovereign rating, while all the others have ratings below or bordering investment grade. Thus the NDB faces an uphill battle in getting credit ratings that would enable it to borrow cheaply in international financial markets. At the BRICS summit meeting in September 2017, Russia's President Putin stressed that 'the NDB's immediate tasks include obtaining an international credit rating' (Kremlin, 2017). As of mid-2018, the NDB has not publicized any international ratings.

It is not surprising that thus far the NDB has relied heavily on the Chinese capital market. In 2016 and 2017 the NDB obtained an AAA credit rating with stable outlook from two leading Chinese rating agencies, China Chengxin International Credit Rating and Lianhe Credit Rating. In July 2016, the NDB issued its first batch of bonds in China's onshore interbank bond market. Denominated in RMB, the 3 billion yuan (about US$ 450 million) issuance met with an enthusiastic response from investors. According to NDB vice president, Leslie Maasdorp, 'The NDB will continue to explore further local currency bond issuances in China as well as other member countries' (quoted in Wu, 2016). The president of NDB, K.V. Kamath, indicated in 2017 that the bank was planning to issue up to US$ 500 million worth of rupee-denominated masala bonds in the second half of the year (Kumar and Singh, 2017). However, as of mid-2018 the NDB has not issued the masala bonds.

Compared with the NDB, the AIIB is in an advantageous position in this regard. Its membership includes a large number of developed countries, which is very helpful for the bank in obtaining a good credit rating. In June and July 2017, Moody's, Standard and Poor's and Fitch Ratings all gave the AIIB top-notch ratings, clearing the way for the bank to borrow cheaply in the international financial markets. Taking into account the likely different credit ratings of the two banks, a 2015 study estimated that by 2025 the NDB could have a loan portfolio of US$ 45–65 billion whereas the AIIB loan portfolio could reach US$ 70–90 billion (Humphrey, 2015a).

Besides their origins and scale, another distinction between the NDB and the AIIB lies in their governance framework. The NDB's structure and decision-making rules reflect a strong commitment to equality among its members. Its initial subscribed capital is equally distributed among the founding members, as is voting power: each of the five member countries subscribes US$ 10 billion (80 per cent callable and 20 per cent to be paid in seven instalments) of the bank's capital and has 20 per cent of the votes. The NDB's Articles of Agreement stipulates that ordinary matters are to be decided by a simple majority of the votes cast. On specific matters, 'a special majority shall be understood as an affirmative vote by four of the founding members concurrent with two thirds of the total voting power' (NDB, 2014: Article 6.b). Under such a framework, no single country has veto power.

The rules are different at the AIIB. According to its Articles of Agreement, the voting power of each member is significantly tied with its shares. AIIB members have three types of votes: basic votes (12 per cent of the total votes), Founding Member votes (600 votes for each founding member), and share votes (initially about 85 per cent of the total votes). In the long run the weight of the Founding Member votes will shrink whereas the weight of the share votes will increase (Lichtenstein, 2018: 23). As of June 2018, China holds 26.65 per cent of the total votes followed by India with 7.66 per cent and Russia with 6.04 per cent (AIIB, n.d.a). Similar to the NDB, most matters before the Board of Governors are to be decided by a majority of the votes cast, but important matters require a 'Super Majority' vote, that is, 'an affirmative vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members' (AIIB, 2015: Article 28.2[ii]). On those matters, China has veto power.

In addition, the NDB's charter requires member countries to take turns filling the presidency of the bank with each of the other member countries supplying a vice president. The inaugural president is from India, and the four vice presidents are, therefore, from Brazil, Russia, China and South Africa (NDB, n.d.a). The AIIB requires the president to be a citizen of a regional member country, but sets no rules about who can serve as vice presidents of the bank. Currently the president is from China, while the vice presidents are citizens of Britain, France, India, Germany and Indonesia (AIIB, n.d.b).

At the operational level, the NDB has been less transparent than the AIIB. It makes public some information about the projects it has approved, including the type of borrower (sovereign or non-sovereign), whether the loan is sovereign guaranteed, the name of the borrowing entity, the guarantor, the end-user or on-lendee, lending modality, target sector and development impact (for example, the amount of new energy to be generated) (NDB, n.d.b).

The AIIB goes beyond that, posting on its website not only project summaries but also lengthy project documents, which specify project rationale, objective, cost, financing, technical and financial analysis, environmental and social assessment, risk mitigation measures, and so forth (AIIB, n.d.c).

The two banks also differ in how they approach social and environmental safeguards. In September 2015 the AIIB made public its first draft Environmental and Social Framework, although many non-governmental organizations (NGOs) inside and outside China were critical of its lack of detail and enforcement mechanisms and the very short and superficial consultation process (Liu, 2016). The NDB has received even harsher criticisms in this regard. It published a much less detailed framework in March 2016 (25 pages, against AIIB's framework document of 54 pages). Civil society actors have complained of not understanding the NDB's application of its environmental and social safeguards and of not being consulted (Santos, 2016). In its 2017–2021 Grand Strategy report, the NDB emphasizes the importance of using and strengthening country systems — the legal framework in the borrowing countries — for social and environmental protection (NDB, 2017a).

Finally, the NDB and the AIIB have, to date, taken different approaches to cooperation with traditional MDBs. The AIIB has signed numerous MOUs or agreements with other MDBs regarding partnerships and cooperation (see Appendix Table A1). Of the 25 projects it had approved by June 2018, 17 are co-financed with other multilateral financial institutions (see Appendix Table A3). Given the short history of the bank and its explicit determination to be lean and cost-effective, the AIIB has much to gain from project co-financing. Other MDBs can help identify, evaluate and implement investment projects; furthermore, all the co-financed projects use the environmental and social safeguards policies of the main partners and typically rely on the partner institutions to conduct the environmental and social assessments, design mitigating measures, and publicize the reports.

Like the AIIB, the NDB has signed a number of agreements with other MDBs. But unlike the AIIB, the NDB has also signed numerous agreements with national development banks and commercial banks (see Appendix Table A2). In practice, despite its multiple MOUs and agreements with other MDBs, thus far the NDB has not co-financed any investment projects with other MDBs. Instead, it has chosen to compensate for its limited experience and capacity in a different way, by working closely with the national development authorities in the borrower countries in making its initial loans. Of the 13 loans approved by mid-2018, all but two are sovereign or sovereign guaranteed (see Appendix Table A4). The borrowers are either the national governments of member countries or a major bank or company owned by the government of a member country. These borrowers then lend the funds to entities or projects in their own countries. Going forward, the NDB president makes it clear that, 'selectively, we will look at co-financing, but that is not going to be a significant part of our business' (NDB, 2017b). Its vice

Table 1. Major Distinctions between the NDB and the AIIB

	NDB	AIIB
Origins	BRICS initiative based on Indian proposal	Chinese initiative
Scale	● US$ 50 billion in subscribed capital ● Limited access to international capital markets	● US$ 100 billion in subscribed capital ● Expansive access to international capital markets
Governance	● Equal shares and voting power among members ● No member has veto power	● Differentiated shares and voting power among members ● Chinese veto power on major issues
Transparency	● Limited information about projects	● Detailed information about projects, including safeguards
Safeguards	● Country systems	● International 'best practice'
Main partners	● National authorities and banks	● Traditional MDBs

president emphasizes that, in seeking to be an alternative MDB, serving the emerging economies of the global South, the NDB is keen to develop its own capacity and model (Zhu, 2016).

The divergence between the NDB and AIIB in this area is perhaps not surprising. From the beginning, the AIIB emphasized that it would adhere to the 'highest international standards' (see, for example, Xinhua, 2017). The co-financing of projects with traditional MDBs is a visible and efficient way to borrow the latters' norms and procedures. In its Articles of Agreement, the AIIB commits to 'working in close collaboration with other multilateral and bilateral development institutions' (AIIB, 2015: Article 1). In contrast, the NDB's charter only describes its efforts as 'complementing the existing efforts of multilateral and regional financial institutions for global growth and development' (NDB, 2014: Article 1). An additional, practical reason why the NDB has chosen to cooperate with the national development authorities may be that those authorities in BRICS countries are quite capable. In contrast, some of the borrower countries in the AIIB have very low income and weak domestic institutions. They lack the basic capacity for project development and management (Ye, 2017). For the NDB, sovereign and sovereign-guaranteed loans also have the advantage of reducing the risks of default and giving borrower country governments more influence in choosing which projects to fund. These are consistent with the NDB's nature as a borrower-led bank.

Table 1 summarizes the major distinctions between the NDB and the AIIB. The NDB is a collaborative enterprise by the BRICS countries based on India's proposal while the AIIB is a China-led institution created on Chinese initiative. Compared with the AIIB, the NDB has fewer resources to begin with and faces greater limitations in its ability to mobilize financial resources in the future. The NDB is governed by the principle of equality in its decision making whereas the AIIB is a hierarchical organization dominated by countries making greater financial contributions, with China enjoying an obvious leadership role. The NDB is more opaque in its operations than the AIIB. The NDB has partnered with national governments and development banks whereas the AIIB has extensively cooperated with traditional MDBs.

Given these important distinctions between the NDB and the AIIB, it should be obvious that they do not represent a coherent model of multilateral development finance. Nor are the new MDBs as innovative as perceived by many. In fact, each bank has more in common with some of the older MDBs than they have with each other, as we will see in the next section.

TWO BANKS, TWO TRADITIONS

The NDB and the AIIB are the newest MDBs to enter a landscape that is already crowded with older MDBs. The pioneer MDB is the International Bank for Reconstruction and Development (IBRD), which was created at the Bretton Woods conference in 1944. Originally designed to help Europe rebuild after World War II, IBRD later shifted its focus to developing countries. During the era of decolonization from the mid-1950s to the mid-1970s, the International Finance Corporation (IFC) and the International Development Association (IDA) were founded and joined the IBRD as members of the World Bank Group (WBG). In the decades following the Bretton Woods conference, major regional MDBs emerged, including the Inter-American Development Bank (IDB), the African Development Bank (AfDB), and the Asian Development Bank (AsDB). Following the collapse of the communist regimes in central and Eastern Europe, the European Bank of Reconstruction and Development (EBRD) was established in 1991 to help promote market-oriented economies in those countries. The European Investment Bank (EIB), created in 1958 under the Treaty of Rome, expanded in 2000 into the EIB Group, to facilitate European integration and to promote infrastructure development outside the region. According to one estimate, there are over 250 multilateral development agencies of one kind or another (Kharas, 2010). Chris Humphrey (this issue) refers to 27 MDBs.

These mainstream MDBs are mostly led by developed countries, although the AfDB is an unusual case. It was established in 1964 with 23 founding members, all African states newly freed from colonialism. Until 1982 the bank was owned by regional members only; since then, it has accepted non-regional members, but its strong regional identity continues to be reflected by its African location, the nationality of the president (from an African nation), and African countries' majority shares in the bank (over 60 per cent). Beside the mainstream banks, a number of smaller and less well-known MDBs have been operating for decades in the margins of the Bretton Woods system, such as the Development Bank of Latin America (CAF), the Islamic Development Bank (IsDB) and the Trade and Development Bank (TDB) in Africa. Led by developing countries, these alternative MDBs have developed their own

Table 2. Voting Power of Borrower Countries in MDBs

Bank	EBRD	AsDB	IBRD	IDB	AfDB	AIIB	TDB	CAF	IsDB	NDB
% of borrower countries' votes in total votes	15[a]	33[a]	47[b]	50[c]	59[c]	73[b]	93[d]	95[e]	100[b]	100[b] (2017)

Notes: [a]Borrower countries as reported on banks' websites.
[b]UN-defined developing countries and transition economies (UN, 2014) used as proxy for borrower countries.
[c]Developing countries in the region used as proxy for borrower countries.
[d]At TDB votes are decided by shares held by members. Its class A shares (US$ 1.7 billion in 2017) dwarf class B shares (US$ 150 million in 2017). The figure here is calculated on the distribution of class A shares.
[e]At CAF votes are decided by shares held by members. It has A, B and C shares. A shares are held entirely by borrower countries in the region. The figure here is calculated on the distribution of B+C shares.
Source: Author's calculations based on data from official websites of the MDBs.

models of multilateral development finance. The distinctions between the NDB and the AIIB discussed in the previous section are to a large extent a reflection of these different traditions.

The NDB is made up entirely of developing countries, pooling their resources as both lenders and borrowers. In this regard, it is similar to other borrower-led MDBs, such as the CAF, IsDB and TDB. The CAF came into being in 1970 as the Andean Development Corporation and later evolved into the Development Bank of Latin America. Its membership comprises 19 countries — 17 Latin American and Caribbean states plus Spain and Portugal — and 14 private banks in the region. The IsDB was created in 1973 by the Organization of the Islamic Conference, which later became the Organization of Islamic Cooperation (OIC). It has 57 members, all of which are member countries of the OIC. The TDB was established in 1985, with nine founding members, and now has 24 member countries — 22 African nations plus Belarus and China — and a number of institutional shareholders. In contrast, the AIIB is made up of both developing and developed countries. Defining itself largely by its regional identity and eager to attract members from the developed world, it is similar to the mainstream regional MDBs built on the World Bank model. Among the AIIB's 86 members, 22 are developed countries and the rest are developing or transition economies according to UN definitions (UN, 2014).

The governance of the NDB and the AIIB also reflects these two different traditions. As noted above, the NDB gives equal decision-making power to all its members, whereas the AIIB allocates votes to its members largely according to their financial contribution. Table 2 compares the two banks with some traditional MDBs in terms of the voting power of the borrower countries. The NDB is at the high end, along with other borrower-led banks, while the AIIB's governance structure sets it closer to the mainstream MDBs.

The difference in scale between the NDB and the AIIB is typical of the distinction between borrower-led MDBs and MDBs led by developed countries. The relative poverty of the developing countries and the exclusion or near exclusion of advanced economies by these banks severely limits their financial resources. As discussed above, this leads to difficulties in

Table 3. Resources of MDBs, 2016

MDBs	IBRD	IDB	EBRD	AIIB	AsDB	CAF	NDB	IsDB	AfDB	TDB
Usable equity[a] 2016 (US$ billion)	39.4	26.3	21.6	17.8	17.2	10.5	9.6	8.3	8.1	0.86
Subscribed capital (US$ billion)	252.8	170.9	30	100	162.8	15	50	70	92	1.7

Note: [a]Usable equity = paid-in capital + reserves and retained earnings.
Sources: Financial Statements (2016) of the MDBs.

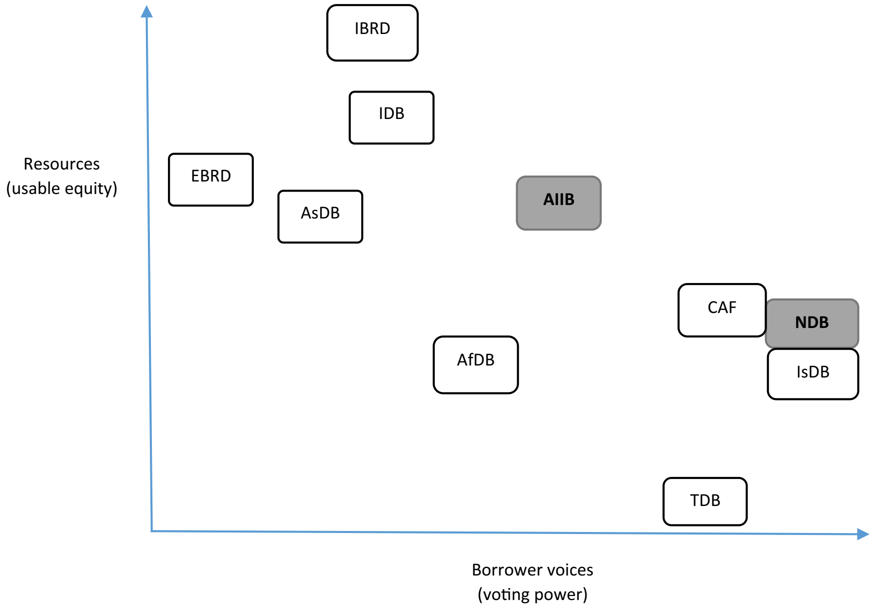
obtaining favourable credit ratings from international credit rating agencies. The methodologies used by these agencies tend to underestimate MDBs' financial strength and seem to place MDBs not led by industrialized countries at a particular disadvantage. MDBs made up mostly of developing countries almost never obtain an AAA rating from these agencies, regardless of their record of repayment (Humphrey, 2015b). On the other hand, MDBs led by developed countries are able to obtain higher ratings due to the sovereign ratings of their members. Table 3 shows the resources (measured in usable equity and subscribed capital) of the NDB, the AIIB and several other MDBs. Developing/borrower country-led banks are generally less well-endowed than the developed/donor country-led MDBs.

The different approaches of the NDB and the AIIB to transparency and safeguards are also indicative of the two distinctive traditions of multilateral development finance. For years the World Bank and the major regional MDBs were criticized for their secretive operations and neglect of the social and environmental consequences of their investments. In response, they have made significant progress in addressing those problems (Stone and Wright, 2006). These developed country-led MDBs depend on budget allocation by donor governments, especially for their grant-making windows. Keenly aware of the sensitivity of donor governments to public opinion in their countries, these MDBs have been eager to demonstrate that they care about human rights, good governance and environmental protection in order to ensure their funding (Nielson and Tierney, 2003).

MDBs led by developing countries, on the other hand, are typically less subject to public scrutiny and pressure. This may be due in part to their smaller scale and lower profile, but is also likely a result of the relative weakness of civil society in their member countries. Consistent with the policy-making style in many member countries, these MDBs have not been especially attentive to the issue of transparency. Rather, they are responsive to the concern of their members about national sovereignty, which favours the use of country systems over international standards in social and environmental safeguards.

This is not to say that the NDB and the AIIB are simply carriers of the two existing traditions in multilateral development finance. The NDB has gone further than the older alternative MDBs in its commitment to member

Figure 1. Landscape of MDBs [Colour figure can be viewed at wileyonlinelibrary.com]



equality in decision making, manifested by the equal distribution of voting power among all its members. The AIIB differs from mainstream MDBs with its focus on infrastructure, rejection of political lending conditionality, and lean structure. Officials at both the NDB and the AIIB have carefully pointed out that while they will learn from existing MDBs, they are not going to abide by all the existing rules. Not long after the creation of the NDB, Vice President Leslie Maasdorp stated that 'Beyond drawing on best practices, the NDB will aim, in a modest way, to build what is described in our founding principles as "next practices"' (Maasdorp, 2015). Commenting on the AIIB, China's Minister of Finance, Lou Jiwei, stated that 'The multilateral development organizations such as the World Bank and the Asian Development Bank are under constant reform, a proof that there is only the "good practice" instead of the so-called "best practice"' (Lou, 2014).

Figure 1 suggests a useful way to imagine the global landscape of MDBs. The horizontal axis represents the voices given to the developing/borrower countries at the MDBs whereas the vertical axis measures the financial resources of the banks. Mainstream MDBs tend to cluster in the upper left area with relatively abundant financial resources and limited voting power for their borrower-country members. Alternative MDBs tend to concentrate in the lower right area with fewer financial resources and greater voting power for the borrower-country members. This landscape echoes an earlier study of MDBs. Stephen Krasner (1981) compares the IDB, the AsDB and the

AfDB along two dimensions — resources and influence. He points out that the IDB gives developing country members both resources and influence. At the AsDB developing countries have resources but little influence, whereas at the AfDB they have influence but few resources. He argues that the key to the variation is the power structure of the banks. Only under a hegemonic structure, as in the case of the IDB, can weaker states get both resources and influence — so long as they do not violate the general goals of the hegemonic power. In contrast, under a bipolar structure (as in the AsDB) or multipolar structure (as in the AfDB), developing members either have limited influence or resources. Using his framework, one might draw parallels between the AIIB and IDB, and between the NDB and the AfDB.

NDB, AIIB AND CHINA'S AMBIGUOUS PLACE IN GLOBAL FINANCIAL GOVERNANCE

As the above sections make clear, there are major differences between the NDB and the AIIB. To a large extent, these new MDBs reflect two well-established traditions embedded in existing MDBs. China's important role in these very different kinds of MDBs indicates that it is not promoting a coherent or a new model in this area of global financial governance. What explains China's apparent lack of policy coherence?

An obvious place to look for answers is the internal division in the Chinese government. Scholars have written about the impact of fragmented authoritarianism on Chinese foreign policy (Lampton, 2001; Liou, 2009). Personal convictions of key individuals may also matter. It will be a while before the inner workings of Chinese participation in the NDB and the AIIB become clear to outsiders, but the information available so far gives little indication that either inter-agency competition or personality has played a major role in China's embrace of two different models of MDB.

Chen Yuan, the long-time head of the China Development Bank (CDB), reportedly led China's participation in the founding of the NDB (Krishnan, 2013). During his tenure as president of the CDB, Chen emphasized the imperative for the bank to adopt a business model even as it shouldered policy responsibilities. With Chen at the helm, CDB greatly reduced its non-performing loans and became as profitable as the best commercial banks, achieving 'world class business performance' (Chen, 2013: 40). It also greatly expanded its clientele outside China. According to Chin and Gallagher (this issue), the CDB now holds over US$ 1.4 billion in assets with roughly US$ 375 million overseas — more than the IBRD. It is difficult to see anything in Chen's organizational affiliation or personal beliefs that would have made him an advocate of the model adopted by the NDB.

Despite widespread speculation, Chen did not become the president of the NDB once the bank was established. That position went to K.V. Kamath of India. China has been represented by Zhu Xian as the bank's vice president and chief operations officer. Zhu spent many years working in the Ministry of Finance, including as director of its International Department. He then held a series of senior positions at the AsDB and the World Bank. For several years, he served as a vice president of the World Bank and Chief Ethics Officer (NDB, n.d.c). One might therefore expect that Zhu's background would make him quite sympathetic to the mainstream MDB model represented by the World Bank.

Meanwhile, Jin Liqun has been a central figure in the creation and early operations of the AIIB. As China's chief negotiator in the establishment of the bank and as its inaugural president, Jin has been the face of the AIIB since the beginning. Like the NDB's Zhu, Jin was a long-time official in the Ministry of Finance, rising to the rank of vice minister. He also worked at the AsDB and the World Bank. He was a vice president and then ranking vice president of the AsDB and the Alternate Executive Director for China at the World Bank (AIIB, n.d.b).

The background of these key individuals gives no reason to believe that they represent sharply different perspectives on multilateral development finance. All of them have built their careers in or near mainstream MDBs rather than institutions deeply involved in South–South cooperation. Neither bureaucratic interests nor personal convictions seem to offer a good explanation for the divergent directions of the NDB and the AIIB so far. In fact, China's ambiguity toward multilateral development financing is mirrored by its vague and/or contradictory positions on a number of other issues in global financial governance. Three cases are illustrative.

The first case concerns China's attitude toward the role of the IMF in global financial governance. The Chinese government has worked hard toward and made significant progress in enhancing its influence at the IMF. China's votes rose from 3.81 per cent to 6.16 per cent as a result of the voice reform approved by the IMF in 2010 and finally implemented in 2015. Still ranked number 3, despite its position as number 1 or 2 in terms of GDP size, China is seeking to further increase its weight at the IMF. At the same time, China has actively participated in establishing and expanding other arrangements outside the IMF to deal with financial crises, such as the Chiang Mai Initiative (which later became the Chiang Mai Initiative Multilateralization — CMIM) and the Contingency Reserve Arrangement (CRA). CMIM has a pool of US$ 240 billion among East and Southeast Asian countries, while CRA has a pool of US$ 100 billion among the BRICS. The two schemes aim to provide alternatives to the IMF in dealing with international financial crises. However, both stipulate that 70 per cent of their lending is linked to IMF programmes, to take advantage of the latter's technical expertise and distance from regional political rivalry (Kring and Grimes, this issue). Whether they complement or undermine the IMF has been a matter of ongoing debate (Henning, this issue).

The second case is China's reaction to the problems of the international credit rating system. China has been critical of the system, particularly the methodology used in credit rating and the dominance of the industry by US-based agencies. Chinese officials, analysts and credit rating agencies have called for fundamental reforms. However, the Chinese government has not been fully supportive of Indian and Russian initiatives in recent years to create a BRICS credit rating agency. In fact, it blocked the initiative at the last minute at the Goa Summit in 2016. Meanwhile, major Chinese credit rating agencies have formed partnerships with US-based agencies. In 2017 the Chinese government committed to allowing those agencies to operate directly in China's capital market. It is worth noting that the biggest international credit rating agencies have given glowing ratings to the China-led AIIB. Again, China seems to be trying to simultaneously challenge and reinforce the existing order (Helleiner and Wang, 2018).

A third case is China's approach to reforming the international debt restructuring regime. How to prevent or ameliorate debt crises is an important issue in global financial governance. The existing system of sovereign debt restructuring tends to delay debt restructuring as long as possible, causing economic dislocation and financial instability. The IMF and the United Nations have each developed their own preferred frameworks for reforming the existing (dis)order of sovereign debt restructuring. The IMF favours a market-driven solution in the form of collective action clauses (CAC), under which an agreement among a qualified majority of bond holders binds all bond holders to debt restructuring. The UN, on the other hand, advocates a statutory arrangement, where debt restructuring is conducted through a quasi-judicial process, similar to a domestic bankruptcy court. Despite its status as major international creditor, China has not developed a clear and consistent policy regarding debt restructuring. At the IMF, Chinese officials have expressed support for CAC. At the UN, China — along with the Group of 77 — has supported a statutory approach to deal with debt restructuring (Wang, 2014b). China has also been ambivalent toward involvement in the Paris Club, the main group of official creditors coordinating the handling of payment difficulties involving inter-governmental debt (Liu and Song, 2016). So far China has been an ad hoc participant in the Paris Club.

In all these cases, China has shown the same kind of ambiguity that we have seen in multilateral development financing. It seems to be straddling two positions, one augmenting the traditional international institutions dominated by the developed countries and the other challenging those institutions in favour of alternatives led by the developing countries. This pattern of hedging across many issue areas suggests broader forces at work than bureaucratic politics or personalities. A plausible case can be made that China's multifaceted national identity and complex national interest are the source of its incoherent policy on MDBs and other issues of global financial governance.

For decades after the creation of the People's Republic, China was outside the post-WWII international economic order led by the USA, first as a member of the Soviet bloc in the 1950s and then as a part of the Third

World in the 1960s. Following the rapprochement with the US in the early 1970s, China began to moderate its radicalism in foreign policy and to develop relations with industrialized countries, but it continued to identify with other developing countries. For example, a study of China's early engagement with the IMF and the World Bank observes that through the 1980s, China became 'a responsible spokesman for developing countries'. At both institutions China often aligned itself with the positions of other developing countries. In fact, Chinese executive directors at both the World Bank and the IMF were under instruction never to raise demands that might be seen as being costly to any developing country (Jacobson and Oksenberg, 1990: 132–33).

However, China's national identity has become more complex in recent years. Since the late 1990s, with its unprecedented economic success, a new identity — that of a major power — has gradually taken hold in the Chinese imagination (Rozman, 1999). During the Asian financial crisis, the concept of China as a 'responsible great power' became crystallized and strongly influenced China's reaction to the crisis. As its neighbouring countries' currencies dropped precipitously, the Chinese government faced tremendous pressure to devalue the RMB, but refused to do so. The loss in price competitiveness contributed to the dramatic decline of Chinese exports, but China received high praise from around the world, affirming China's self-perception as a responsible great power (Wang, 2003).

Following the global financial crisis in 2008, China's robust economic growth at a time of economic recession in the US further enhanced its major power identity. When China's GDP surpassed that of Japan and — in PPP terms — that of the USA a few years ago, a new sense of national greatness became entrenched. Both the official and the academic discourse have increasingly talked up China's responsibility and China's voice in global governance. Pundits in China have called for or celebrated China's transition from a 'rule-taker' to a 'rule-maker' (see, for example, Pang, 2009; Zhang, 2017). However, what kind of rules China would like to promote remains unclear.

Having been a beneficiary of the existing international order, China has come to see itself as a stakeholder in that order. Chinese officials have frequently spoken out in favour of free trade, cooperation, and multilateralism — important pillars of the post-WWII international economic order. President Xi Jinping's speech at the World Economic Forum in early 2017 attracted worldwide attention. Speaking against trade protectionism, defending globalization and advocating international cooperation to fight climate change, Xi *appeared* as an international statesman and a staunch supporter of the liberal international economic order (Xi, 2017a). On the other hand, China has not shed its identity as a developing country, although it is certainly not an ordinary developing country. In his speech at the 19th Congress of the Chinese Communist Party, Xi asserted that China's status as the world's largest developing country has not changed, and that 'China has provided entirely new options for countries and nations in the world that hope to accelerate their development and also maintain their own independence' (Xi, 2017b).

As China combines its identities as a developing country and a responsible great power, its economic and political interests have become more complex. In international financial governance, China often finds itself having more in common with the advanced economies than with developing countries. For instance, China's creditor status aligns its financial interest more closely with that of other creditor nations — mostly developed countries — than with debtor nations in the global South. Like other creditors, China has strong incentives to improve economic surveillance, discipline debtors and ensure orderly debt restructuring when debtors are not able to meet their payment obligations. In that context, it is not surprising that China has chosen to work closely with the IMF, increasing the Fund's resources and linking IMF programmes to lending by CMIM and CRA. It also helps explain why China has been willing to work with established credit rating agencies and why it has been supportive of the market-based CAC approach to debt restructuring favoured by many creditors.

At the same time, China also has much at stake in maintaining good relations with the developing countries. China's growing need for energy and resources has led to rapid expansion of trade and investment ties with countries in Africa and Latin America (Ellis, 2009; Rotberg, 2009). On the political front, China has historically relied heavily on the support of developing countries, including in gaining its seat at the United Nations and in deflecting criticisms of China's human rights conditions (Van Ness, 2018). This sheds light on China's continued expression of solidarity with developing countries on reforming Bretton Woods institutions, demanding change in the credit rating regime, and protecting the interests of debtor countries. In short, China's embrace of very different models of MDBs is part of a general pattern in its approach to global governance. Its multifaceted identity and complex national interests require it to straddle different camps and hedge its positions.

CONCLUSION

This article has argued that, in spite of suggestions to the contrary, the NDB and the AIIB — two newcomers to the world of MDBs — are quite distinctive. They are built on two different traditions in multilateral development finance. China's embrace of both banks suggests that there is as yet no coherent new Chinese model in this area of global financial governance. It is a manifestation of China's ambiguous attitude toward the existing financial order which is dominated by the developed countries. Given its multiple national identities and complex economic and political interests, it is likely that, for the foreseeable future, China will remain in a grey zone between the existing liberal international economic order and the alternative world of South–South cooperation.

APPENDIX

Table A1. MOUs or Agreements between the AIIB and Other Development Institutions

Date	Partner
September 2015 (Interim Secretariat)	AsDB
October 2015 (Interim Secretariat)	WBG
April 2016	WBG
May 2016	AsDB
May 2016	EBRD
April 2017	NDB
April 2017	WBG
May 2017	IDB/IIC
April 2018	AfDB

Source: AIIB official website; www.aiib.org/en/index.html (accessed June 2018).

Table A2. MOUs or Agreements between the NDB and Other Development and Financial Institutions

Date	Partner (multilateral)	Date	Partner (national)	Date	Partner (commercial)
July 2016	AsDB	September 2015	BNDES (Brazilian Development Bank)	January 2016	Bank of China
September 2016	WBG	October 2016	BRICS Interbank Cooperation Mechanism	May 2016	Industrial Credit and Investment Corporation of India
September 2016	CAF	June 2017	BRICS export credit insurance agencies	June 2016	China Construction Bank
April 2017	International Investment Bank	September 2017	China Development Bank	August 2016	The Standard Bank of South Africa
April 2017	Eurasian Development Bank	May 2018	Development Bank of South Africa	November 2016	Bank of Communications, China
April 2017	AIIB			September 2017	Agricultural Bank of China
April 2017	EBRD			September 2017	Industrial and Commercial Bank of China
April 2017	EIB			January 2018	Banco Santander (Brasil) S.A.
April 2017	FONPALTA			May 2018	State Bank of India
May 2018	IDB and IDB Invest				

Source: NDB official website; www.ndb.int/ (accessed June 2018).

Table A3. Projects Approved by the AIIB (as of June 2018)

Project	International Investment partner	Sector	Location	Safeguards
Madhya Pradesh Rural Connectivity Project	World Bank	Transport	India	World Bank
Bangladesh Bhola IPP		Energy	Bangladesh	AIIB
Beijing Air Quality Improvement and Coal Replacement Project		Energy	China	National and AIIB
Broadband Infrastructure Project		Telecom	Oman	AIIB and National
Bangalore Metro Rail Project – Line R6	EIB	Transport	India	EIB
Metro Manila Flood Management Project	World Bank	Water	Philippines	World Bank
IFC Emerging Asia Fund	IFC, et al.	Multiple		IFC
India: Transmission System Strengthening Project		Energy	India	ADB
Egypt Round II Solar PV Feed-in Tariffs Programme	IFC, et al.	Energy	Egypt	IFC
Gujarat Rural Roads		Transport	India	AIIB
Nurek Hydropower Rehabilitation	IDA, EaDB (Eurasian Development Bank)	Energy	Tajikistan	World Bank
India Infrastructure Fund		Multisectoral	India	National and AIIB
Batumi Bypass Road, Georgia	AsDB	Transport	Georgia	AdDB
Andhra Pradesh Power 24 × 7 for all	World Bank	Energy	India	World Bank
Natural Gas Infrastructure and Efficiency Improvement	AsDB	Energy	Bangladesh	AsDB
Dam Operational Improvement and Safety	World Bank	Multi sector	Indonesia	World Bank
Regional Infrastructure Development Fund	World Bank	Urban	Indonesia	World Bank
Trans Anatolian Natural Gas Pipeline	World Bank	Energy	Azerbaijan	World Bank
Duqm Port Commercial Terminal and Operational Zone Development		Transport	Oman	National and AIIB
Railway System Preparation		Transport	Oman	National and AIIB
Myingyan Power Plant	IFC, AsDB		Myanmar	IFC
Tarbela 5 Hydropower Extension	World Bank	Energy	Pakistan	World Bank
National Slum Upgrading	World Bank	Urban	Indonesia	World Bank
National Motorway M4	AsDB	Transport	Pakistan	AsDB
Distribution Upgrade and Expansion		Energy	Bangladesh	AIIB
Dushanbei–Uzbekistan Border Road Improvement	EBRD	Transport	Tajikistan	EBRD

Source: AIIB official website; www.aiib.org/en/index.html (accessed June 2018).

Table A4. Projects Approved by the NDB (as of June 2018)

Loan	**Borrower**	**Lending modality**	**Guarantor**	**End-user/ On-lendee**	**Sector**
Canara Bank (India)	Canara Bank	Sovereign guaranteed	Government of India	Sub-projects	Renewable energy
Lingang (China)	PRC government	Sovereign project loan		Shanghai Lingang Hongbo New Energy Development Co.	Renewable energy
BNDES (Brazil)	BNDES	National financial intermediary		Sub-projects	Renewable energy
ESKOM (South Africa)	ESKOM	Sovereign guaranteed project loan	Government of RSA	ESKOM	Renewable energy
EDB/IIB (Russia)	EDB/IIB	National financial intermediary		Nord Hydro-Bely Porog and other sub-projects	Renewable energy and green energy
Madhya Pradesh (India)	Government of India	Sovereign project finance facility		Government of Madhya Pradesh	Road upgrading
Pinghai (China)	PRC government	Project loan		Fujian Investment and Development Group	Renewable energy
Hunan (China)	PRC government	Sovereign project finance facility		Sub-projects PIUs in Hunan	Water, sanitation and flood control, environment
Jiangxi (China)	PRC government	Sovereign project finance facility		Government of Jiangxi Province	Energy conservation
MP Water (India)	Government of India	Sovereign project loan		Government of Madhya Pradesh	Water supply and sanitation, rural development
Judicial Support (Russia)	Government of Russian Federation	Sovereign project loan		Supreme court, Moscow city court, district courts, etc.	Social infrastructure
Rajasthan Water Sector Restructuring Project (India)	Government of India	Sovereign financing facility		Government of Rajasthan	Irrigation, agriculture
Ufa Eastern Exit Project (Russia)	Government of Russian Federation	Sovereign project loan		Government of Bashkortostan	Transportation

Source: NDB official website; www.ndb.int/ (accessed June 2018).

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