4. Reforming Multilateral Financial Institutions: Perspectives from India and China on Development Finance in the Global South

Alvaro Mendez

The remit of this chapter is briefly to survey and comment upon the Global South's perspective on the reform of the multilateral financial institutions that were founded in the 1940s, directly after the Second World War. The chapter focuses on the Asian countries, China and India in particular. This is just as well, since there is broad consensus across the South over the need for reform, especially to development finance, the positions of China and India actually epitomize the Global South's, even as between both giants there is broad overlap. Speaking in very general term, India is content (at least for now) to work within the liberal Bretton Woods architecture, provided comprehensive reforms are forthcoming in good time. China, however, is more sceptical of the Anglo-Saxon or North Atlantic world order; although it is willing to urge reformation right alongside India, it has done more to re-envision both the details and the broad outlines of national and international finance.

India and China Side by Side

The two most populous countries in the South and in the world are in agreement on key points about what is lacking in the current global financial architecture and on the imperative need to persist in promoting their agenda against the Global North. They are partly in agreement on the kind of architecture that should supersede the status quo. The key point of agreement is that the rules governing multilateral development banks (MDBs) ensconce and perpetuate inequality between developing and developed nations. MDBs as institutions are not evolving quickly enough to accommodate the now fast-rising Asian markets. The South wants a sustained dialogue on the governance of global development finance.[1] Nearly everyone believes a more equitable system would require restructuring debt, rethinking aid, and increasing investment flows.[2] The economic order established by Bretton Woods is widely seen as obsolescent and a perpetrator of inequality;[3] it must be deeply reformed, or if not, maybe abandoned by developing countries. The South has been waiting for a more equitable financial system for too long, including an overdue restructuring of debts,[4] implementing new ideas on rendering development assistance,[5] and collective facilitating of larger flows of financial investment in the developing world.[6]

[1] C. Weaver and M. Moschella, "Bounded Reform in Global Economic Governance at the International Monetary Fund and the World Bank", in O. Fioretos, *International Politics and Institutions in Time*, Oxford, Oxford University Press, 2017, pp. 274-92.

[2] N. Birdsall and A. Subramanian, "From World Bank to Development Cooperative", Working Paper, Center for Global Development, 2007.

[3] J.E. Stiglitz, "Democratizing the International Monetary Fund and the World Bank: Governance and Accountability", *Governance: An International Journal of Policy, Administration, and Institutions*, vol. 16, no. 1, 2003, pp.111-39.

[4] S. Horn, C. Bradley, Parks, C.M. Reinhart, and C. Trebesch., "China as an International Lender of Last Resort", NBER Working Paper no. 31105, April 2023.

[5] Y. Min, "The Dragon's Gift: An Empirical Analysis of China's Foreign Aid in the New Century", *International Trade, Politics and Development*, vol. 6, no. 2, 2022, pp.73-86.

[6] G20, New Delhi Leaders' Declaration, New Delhi, India, 9-10 September 2023, pp. 19-22.

India's leadership of the G20, commencing on 1 December 2022 and ending on 30 November 2023, has provided one of the poorest nations on earth (per capita)[7] with a platform from which it could spotlight the global financial order and its inadequacy. In their G20 New Delhi Leaders' Declaration of 9-10 September 2023, the attending heads of state stressed the necessity of a reformation of global finance and called on MDBs to revise their governance rules in order to meet the challenges that lie immediately ahead.[8]

One long-running source of dissatisfaction is the apportionment of voting rights at the World Bank. Both India and China have long called for reform to accurately reflect their relative economic weight as well as to accommodate the broader shifts in the developing versus developed nations' relative share of the world economy. China remains dissatisfied with its voting power at the IRDB[9] relative to its size as the world's second-largest economy (or largest by purchasing power parity[10]) after the 2010 adjustment, which put its number of votes above Germany's and the UK's.[11] Voting parity reform to date is widely deemed to have been too little, too late.[12]

India and China stand together with the rest of the Global South on these and many other key development and global finance issues. Their pathway to concrete and specific reforms, however, shows some striking differences in approach and in end purpose. It is better to describe how things stand in detailed rather than general terms, so let us turn to these interesting and important differences.

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[7] World Bank, "World Development Indicators", April 2024.

[8] G20, New Delhi Leaders' Declaration 2023, pp. 11-18.

[9] Ibid., pp. 19, 20-21.

[10] International Monetary Fund, "World Economic Outlook Database: April 2024".

[11] "India, China Get More Say in World Bank Functioning", *Hindustan Times*, 26 April 2010.

[12] The Bretton Woods Project, "Analysis of World Bank Voting Reforms: Governance Remains Illegitimate and Outdated", 30 April 2010.

The Influence of Indian Agency

Indian leadership of the G20 focused the world's attention on development finance. Finance Minister Nirmala Sitharaman and other Indian officials suggested that MDBs need to make funds more readily available to underdeveloped nations,[13] including holding discussions on recapitalisation of MDBs to enhance their lending capacity in the Global South. Showcasing its Presidency of the G20, India commissioned an Independent Expert Group to report on the future role of MDBs, who produced the "Triple Agenda" to address the South's immense financial challenges. Radically reformed and strengthened MDBs are to play a key role in providing resources, working with governments and the private sector to ease conditions for investment. They are the most effective institutions for low-cost, long maturity financing, and for sharing and mitigating risks faced by private investors in the most efficient way. But MDBs will have to transform themselves. Their triple agenda is as follows: (I) a triple mandate to (1) eliminate extreme poverty, (2) boost shared prosperity, (3) contribute global public goods; (II) to triple sustainable lending levels by 2030; and (III) to craft a third funding mechanism permitting innovative arrangements to help other (including private) investors support elements of the MDB agenda. Changes in the ways MDBs operate are required. They must: integrate development and climate agendas, working with the private sector and governments to lower the cost of capital; change their culture to be more client-responsive and take more risk. Timelines for project preparation must be shrunk and procedures rationalised whereas the scale and nature of their activities must be expanded. As a percentage of the GDP of borrowing countries, MDB gross disbursements are just half of what they were in 1990, an unacceptably low pace of transfers.[14]

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[13] FE Bureau, "India's G20 Presidency to Focus on Sustainable Development Financing: FM Nirmala Sitharaman", *Financial Express*, 13 January 2023.

[14] Independent Experts Group, "Strengthening Multilateral Development Banks:

The Global South, in order to fulfil its current development potential, must spend $3 trillion a year by 2030, of which $1.8 trillion is to be invested in climate action, mostly in sustainable infrastructure, and $1.2 trillion to attain other SDGs (e.g., a 75% increase in health and education). The international system of development finance must be redesigned to support this by providing $500 billion in *additional* official external financing per year by 2030, of which one-third is concessional and non-debt-creating financing and two -thirds non-concessional official lending. MDBs must mobilise an equivalent amount of private capital, implying a total additional external financing package of $1 trillion. This means an incremental $260 billion of additional annual official financing ($200 billion in non-concessional lending).[15] India has been pushing MDBs to adapt to twenty-first century challenges like pandemics, sustainability, and climate change. It used its G20 Presidency to call for MDBs to expand their mandates to finance initiatives that tackle transboundary issues without compromising traditional development finance. Finance Minister Sitharaman laid out India's position, emphasising improvements to the agility of MDBs, amongst other priorities like resolving critical debt-related matters swiftly; establishing a global regulatory framework for crypto assets; and expanding the South's digital infrastructure. India's goal of reaching developed status by 2047 is to be reached through financing of infrastructure, investment, innovation and inclusive growth.[16] India's agency, as set out in the *G20 Roadmap for the Implementation of the Recommendations of the G20 Independent Review of Multilateral Development* of July 2023, was designed to opportune the MDB ecosystem to explore ways and means of mobilising their existing resources more efficiently in order to meet the anticipated high demand

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The Triple Agenda", 19 July 2023. Center for Global Development.

[15] *Ibid.*

[16] H. Gupta, "MDB Transformation Roadmap to Be Laid Out During India's G20 Presidency: Sitharaman", *Inventiva*, 29 July 2023.

upon their lending.[17] Whatever its brief as a reformer, India is therefore a reformer that is thoroughly embedded in the norms of the incumbent global economic system.

China's Strategic Innovation in Development Banking

China's approach to reforming the governance of MDBs encompasses working within the existing framework to expand its influence while creating parallel structures that could offer alternative or supplementary avenues for global financial and economic governance. This Janus-faced agency reflects China's grand geopolitical strategy, to reshape the global financial architecture (amongst other things) in ways that better accommodate its own unique economic model and development goals and (so it believes) those of other emerging economies. Specifically, China has dissented from the Bretton Woods approach to development to favour its own infrastructure-first paradigm. It supports reforms shifting MDBs' focus toward infrastructure development away from lending that is conditional on socio-political reforms or economic liberalisation, believing the latter to burden the least developed countries. For instance, China is engaging with Africa through large-scale infrastructure investment and economic partnership so as to build alliances outside Western financial networks that may be leveraged to support reforms or new international institutions.[18]

China has led or created new multilateral development banks like the Asian Infrastructure Investment Bank (AIIB) and the

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[17] G20 Roadmap for the Implementation of the Recommendations of the G20 Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks, July 2023.

[18] J. Rayman, "China's Challenge to World Development Paradigms", *Journal of Global Ethics*, vol. 17, no. 1, 2021, pp. 91-113; and S. McCarthy, "China Has a Sweeping Vision to Reshape the World – and Countries Are Listening", *CNN*, 10 November 2023.

New Development Bank with BRICS nations, which can serve either as alternatives or complements to Bretton Woods, providing China with a platform to exert influence inside and/or outside these structures. This reflects a general scepticism towards the neo-liberal order established and led by the USA.[19] The PRC may be transitioning toward state-controlled economic management, which may eventuate in reforms to multilateral development governance which accommodate alternative financial models that completely eschew neo-liberalism.[20]

China's innovations and creativity in all finance and development aid matters have been so massive and multifarious that it is practically impossible to summarise them or boil them down to a formula. It seems best to retrace the sequence of events that constitute China's fabled engagement with the World Bank and let the facts speak for themselves. The story of the star pupil of the World Bank who outgrew its master hints at how much China may be able to reorder the entire global system of finance.

The Apprentice and the Sorcerer: A deep background in China's relations with the World Bank (1949-1999)

Since 1980, the People's Republic of China (PRC) has joined quite a few "membership" international governmental organizations (IGOs). The PRC's relations with the main financial IGOs are examined through the proxy of the International Bank for Reconstruction and Development (IBRD), commonly known

[19] A. Kadri, *China's Path to Development: Against Neoliberalism*, Singapore, Springer, 2021. See also I.M. Weber, "China and Neoliberalism: Moving Beyond the China Is/Is Not Neoliberal Dichotomy", in D. Cahill, M. Cooper, M. Konings, and D. Primrose (eds.), *The SAGE Handbook of Neoliberalism*, London, SAGE Publications, 2018, pp. 219-33.

[20] J. Blanchette, "From 'China Inc.' to 'CCP Inc.': A New Paradigm for Chinese State Capitalism", Center for Strategic and International Studies, 2021.

as the World Bank (WB). China's membership of the WB officially commenced on 15 May 1980.[21] The two main ways of reading China's motivation for engaging with IGOs are: (1) a Realist view that the PRC believes memberships maximise its power in international politics;[22] and (2) a Constructivist view,[23] which criticises Realists for inadequately addressing (let alone managing) the *recognition* needs of the rising South. "The heart of Chinese foreign policy thus is not a security dilemma, but an 'identity dilemma': Who is China and how does it fit into the world?".[24] The need for recognition implicates first and foremost the rising power's sense of self, and how integration into international society actually affects its collective self-recognition. Any contrasting approach which should invoke "socialisation" being adopted as a *status quo*, – i.e., identity *change*, – or weighs up material interests narrowly, cannot fully explain a rising power's demands, so risking the outbreak of systemic revisionism.[25] China "has been reluctant to take on the stronger responsibilities that fall on developed countries. China's insistence on being treated as a developing country is a main source of tension in its economic relations with the advanced economies … [as well as] that China's bilateral economic relations with other developing countries do not always meet global standards and norms [despite the scale of its lending into these markets] … [Remaining] outside of [this socialisation framework] leaves China free to behave differently from the advanced economies".[26] Recognition is a public

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[21] A.E. Kent, *Beyond Compliance: China, International Organizations, and Global Security*, Stanford, CA, Stanford University Press, 2007.

[22] J.J. Mearsheimer, *The Tragedy of Great Power Politics*, New York, W.W. Norton & Company, 2014.

[23] A. Wendt, *Social Theory of International Politics*, Cambridge, Cambridge University Press, 1999.

[24] W. Callahan, *China: The Pessoptimist Nation*, Oxford, Oxford University Press, 2010, p. 13.

[25] M. Murray, *The Struggle for Recognition in International Relations: Status, Revisionism, and Rising Powers*, Oxford, Oxford University Press, 2020, p. 207.

[26] D. Dollar, "Reluctant Player: China's Approach to International Economic

good which small states also crave, it should be noted; they feel its deficit no less than great powers.[27] In this sense, China's experience is generalizable to the whole of the Global South.

At the same time and rather paradoxically the PRC is also an outlier amongst WB members and clients, and its exceptionalism also offers valuable lessons for markets of the South that are still in the throes of development. China was a founding member of the World Bank when its Articles of Agreement were drawn up and signed on 27 December 1945. After the 1949 Communist victory in the civil war, membership stayed with the Republic of China after it fled to the island of Formosa, as the US and most IGOs recognised Taipei as China's legitimate government. In the 1950s and 1960s no relationship was possible between the World Bank and the PRC. Beijing, like much of the South, perceived the WB as a proxy for US imperialism.[28]

This status quo was dramatically upended by Beijing's persistent international agency. The UN General Assembly decided on 25 October 1971, in *Resolution 2758*, to expel the Republic of China and to recognise the PRC as China's legitimate representative.[29] Washington began with alacrity to engage Beijing, culminating in US President Nixon's famous visit to China. This ended with the Shanghai *Communiqué* of 27 February 1972, jointly pledging to establish diplomatic relations.[30] In the interim the two opened Liaison Offices in each other's capitals in May 1973.[31] By September the

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Institutions", *Global China: Assessing China's Growing Role in the World*, 14 September 2020, p. 1.

[27] D. Guilfoyle, "Litigation as Statecraft: Small States and the Law of the Sea", *British Yearbook of International Law*, 2023.

[28] J.B. Gewirtz, *Unlikely Partners: Chinese Reformers, Western Economists, and the Making of Global China*, Cambridge, MA, Harvard University Press, 2017.

[29] United Nations, "United Nations General Assembly Resolution 2758", United Nations, 1971.

[30] H. Harding, *A Fragile Relationship: The United States and China since 1972*, Washington, DC, Brookings Institution Press, 2000.

[31] H. Feldman, "A New Kind of Relationship: Ten Years of the Taiwan Relations Act and the United States's China Policy", in R.H. Myers (ed.), *A Unique*

first official interaction between the PRC and WB occurred: China's Minister of Foreign Affairs, Ji Pengfei, telegraphed WB President McNamara advocating that membership rights properly belonged to the PRC.[32] McNamara replied in November 1973 in support of Ji's case, convinced he needed all of China to make the WB truly global in reach.[33] Nixon's post-visit euphoria was undercut by American domestic politics; unsure of his Administration's support, Beijing withheld a reply.[34] This actually delayed membership for years;[35] Beijing hesitated to act without Washington's approval, so discreet was Chinese diplomacy in those early days.

Other endogenous factors weighed on China's hesitancy, which the author is convinced by observation and experience mirror concerns across the global South. In 1974, the Chinese Ministry of Foreign Affairs (FMPRC) and Ministry of Finance (MOF) advised against WB membership on two grounds:, firstly, that the WB's weighted voting system provided an unresponsive platform for attaining the PRC's foreign policy goals; and, secondly, that WB membership would inhibit its discretion to determine its "foreign exchange rate [policy] and control … administration of its foreign exchange".[36] China's money and credit system at that time was bespoke to shelter its

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Relationship: The United States and the Republic of China under the Taiwan Relations Act, Stanford, CA, Hoover Institution Press, 1989, pp. 25-48.

[32] J. Howell, "Foreign Trade Reform and Relations with International Economic Institutions", in C. Hudson (ed.), *The China Handbook*, Abingdon, UK, Routledge, 2014, pp. 173-87.

[33] P.Y. Lipscy, *Renegotiating the World Order: Institutional Change in International Relations*, Cambridge, UK, Cambridge University Press, 2017.

[34] L.W. Liebovich, *Richard Nixon, Watergate, and the Press: A Historical Retrospective*, Westport, CT, Praeger, 2003.

[35] H.K. Jacobson and M. Oksenberg, *China's Participation in the IMF, the World Bank, and GATT: Toward a Global Economic Order*, Ann Arbor, MI, The University of Michigan Press, 1990, p. 64.

[36] N.R. Lardy, "China and the International Financial System", in M. Oksenberg and E. Economy, *China Joins the World: Progress and Prospects*, New York, Council on Foreign Relations Press, 1999, pp. 206-230.

economy from external market forces, which Beijing perceived as irrational *per se* and prejudicial to its national interests. Washington would have to allay these concerns first, for the sake of which Beijing continued to pursue *rapprochement*.

WB membership lay dormant until the PRC converted to a broad economic programme designed to foster "reform and opening-up" economic program. In pursuit of these nascent reforms, Deng Xiaoping saw in the WB a conduit of technical assistance and financial subvention. By mid-1978, the prohibition on borrowing money from Western countries, financiers, and agencies was lifted, after an expert mission led by Vice-Prime Minister Gu Mu found that China had much to learn from Europe.[37] In July 1978 the State Council conditioned borrowing on furthering China's economic modernisation. This, plus the decision to authorise Special Economic Zones, became the twin pillars of reform at the Third Plenary Session of the Eleventh Central Committee in 1978. China opted to seek membership of WB as a necessary prerequisite.[38] Deng made his first state visit to the US in January 1979. He globalised the Open Door policy and publicly broached membership of the WB.[39] Beijing inaugurated its Embassy in Washington in March 1979.

The *annus mirabilis* was 1980. On 1 February the US granted China most favoured nation (MFN) status in trade. China's Ambassador to the US, Chai Zemin, notified McNamara of the PRC's membership application, and invited him to visit China.[40] McNamara flew to Beijing a few weeks later for a historic meeting with Deng on 15 April 1980,[41] during which

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[37] P. Bottelier, *Economic Policy Making in China (1949-2016): The Role of Economists*, Abingdon, UK, Routledge, 2018.

[38] *Ibid.*

[39] J.M. Boughton, *Silent Revolution: The International Monetary Fund 1979-1989*, Washington, D.C., International Monetary Fund, 2001, p. 976.

[40] Jacobson and Oksenberg (1990); and Ibid.

[41] P.A. Sharma, *Robert McNamara's Other War: The World Bank and International Development*, Philadelphia, PA, University of Pennsylvania Press, 2017.

Deng famously stated: "We are very poor. We have lost touch with the world. We need the World Bank to catch up".[42] (Small states of the Global South can express a lostness and need like this, even after becoming disappointed with the WB and similar traditional MDBs.[43]) Deng's candour charmed the West; China's accession was approved with unprecedented speed. The WB Board of Governors spared itself any diplomatic fuss by unilaterally transferring China's seat on the Board from Taipei to Beijing on 15 May 1980. They welcomed in the new China without expelling the old.[44] The Bank had "doubled [its] developing country population".[45]

Impoverished as it was, China would rather have received as much financial assistance as quickly as possible. Yet Beijing chose the way of patience, mindful of the WB's complicated protocols for carefully prioritising, thoroughly assessing, and taking account of the sectoral context before approving projects. It could not just give away concessionary loans.[46] McNamara sent the first fact-finding mission in July 1980, yielding the WB's first multi-volume report on the Chinese economy in June 1981, titled *China: Socialist Economic Development*,[47] and offering background on China's development since 1949. The fact-finders were blunt about China's failures; the Chinese did not object to a single word; rather, they made it available immediately to policy makers and academics, to

[42] Cited in Y. Zhang, *China in International Society Since 1949: Alienation and Beyond*, Basingstoke, UK, Palgrave Macmillan, 1998, p. 227.

[43] M. Ravallion, "The World Bank: Why It Is Still Needed and Why It Still Disappoints", *Journal of Economic Perspectives* 30, no. 1, 2016, pp. 77-94.

[44] S. Tenney and A.C. Salda, *Historical Dictionary of the World Bank*, Plymouth, UK, Scarecrow Press, 2014.

[45] Sharma (2017), p. 158.

[46] P. Bottelier, "China and the World Bank: How a Partnership Was Built", Working Paper #277, Stanford Center for International Development, April 2006.

[47] World Bank, *China, Long-Term Development Issues and Options: A World Bank Country Economic Report*, vol. 1 of 6 vols. Baltimore, MD, World Bank - Johns Hopkins University Press, 1985.

the general public two years later; a "breakthrough toward greater openness".[48] In all of these acts and attitudes, China's exceptionalism is clearly visible in contrast to developing states generally (even perhaps India) yet throughout the South, China's success story has become aspirational.

The sheer impact of China's productivity and efficiency on the WB was such that by 1990 its Beijing office was the second-largest after Washington's.[49] Chinese borrowing skyrocketed; it had surpassed India as the largest borrower on record by 1993 and became the "major success story" in the Bank's history.[50] It remained the largest through 1997 (when it became a donor). As soon as 1993 the WB could tout China as the world's fastest-growing economy, expanding at about 12% *per annum*.[51] Beijing amassed a formidable record of project completion. The World Bank committed a fifth more project funds to China than to India in fiscal years 1990-1995 yet undisbursed commitments to India (the money New Delhi was unready to spend) exceeded those to China by 1995. In that fiscal year, repayments made by India with interest to the WB *exceeded* disbursements of committed funds by USD 185 million; net financial transfers from WB to India had actually become negative![52]

The Global South generally had reason to be dissatisfied with WB governance norms; China was just the most conspicuous instance. In 1995 Beijing was in a strong position to negotiate a WB governance reform raising China's shares from 7,550 to 12,550, placing it eighth 8th amongst members with 2.84% of total shares, corresponding to 45,049 votes, which amounted to about 3% of *that* total. It became the first non-market economy represented on the WB's Governing Board.[53] Beijing

[48] Bottelier (2006), p. 7.
[49] Howell (2014), and Ibid.
[50] Kent (2007), p. 112.
[51] L.R. Sullivan, *Historical Dictionary of the People's Republic of China*, Lanham, MD, Scarecrow Press, 2007.
[52] Lardy (1999), and Ibid.
[53] Howell (2014); Lardy (1999), and Sullivan (2007).

wanted more participation in policy making and more access to resources (and more prestige than India) yet even after China overtook Japan as second-largest economy (excluding the EU) in 2010,[54] somehow reform lagged inside WB. Even today China is only ranked third: as of February 2020, it had 119,365 votes or 4.78% of the total; Japan was second with 193,710 votes or 7.77%. In first place, of course, is the US with 385,235 votes for 15.44%.[55] The US has always kept this primacy, with Japan next since 1984.[56] As all important decisions must be reached by an 85% supermajority per WB rules, the US, with over 15% of the votes, can veto any such decision, even if current reform plans succeed.[57] The South generally harbours similar grievances against the governance of traditional MDBs.[58]

China's finance creativity and ambition cannot be confined to the halls of Western financial institutions even if ever satisfactorily reformed. It dared to innovate on its own as early as 1994 by founding three "policy banks" (non-profit institutions waging Beijing's economic statecraft):[59] the China Development Bank, Agricultural Development Bank of China, and Export-Import Bank of China. In the beginning, their capitalisation was coordinated by the People's Bank of China by administratively apportioning bond issuances, which

[54] M.M. Pearson, "China's Foreign Economic Relations and Policies", in S.M. Pekkanen, J. Ravenhill, and R. Foot (eds.), *The Oxford Handbook of the International Relations of Asia*, Oxford, UK, Oxford University Press, 2014, pp. 160-78.

[55] World Bank, "IBRD Subscriptions and Voting Power of Member Countries", in *World Bank Group Finances*, Washington, DC, World Bank, 2020.

[56] M. Solís, "Japan's Foreign Economic Policies", S.M. Pekkanen, J. Ravenhill, and R. Foot…, cit.

[57] Y. Zhang and W. Feng, "Non-neutral International Institution and Catch-up Strategy of Emerging-market Economies", in B. Shao (ed.), *China under Xi Jinping: Its Economic Challenges and Foreign Policy Initiatives*, Leiden, Netherlands, Brill, 2015, pp. 117-42.

[58] R. Peet, *Unholy Trinity: The IMF* IBIS World, *Policy Banks in China – Market Research Report (2014-2029)*, Beijing, China, May 2024.*, World Bank and WTO*, London, Zed Books, 2003.

[59] IBISWorld, *Policy Banks in China – Market Research Report (2014-2029).* Beijing, China. 2024.

commercial banks and credit cooperatives were required to buy into. This trick adequately capitalised policy banks when neither the internal market nor the state could have done it.[60] Just fourteen years later, they emerged among the world's strongest lenders, stepping into the vacuum left by the West's financial failures of 2008 and projecting Beijing's power abroad.[61] They have lent to developing markets mostly and proved willing and able to operate in high-risk situations.[62] Beijing has resorted to its foreign exchange reserves to recapitalise to cover losses,[63] a stratagem that has proved itself. Interestingly, capitalisation is voluntary as well: "In most financial systems, development banks are government funded and do not take deposits from the public. However, in China all of the development banks do take deposits".[64] Even so, as a gauge of Chinese financial markets' enormity, "compared to the 'Big Four' state-owned banks, these policy banks account for only about 5% of the domestic banking business".[65] China's financial innovativeness potentiates the forecast that it may someday rival or even supplant the Bretton Woods institutions, especially if China and the rest of the South are never satisfied with the marginal reforms to governance the West has been willing to make. The World Bank's 2020-2025 Country Partnership Strategy anticipates this, stating that WB lending to China, an upper middle-income country now, must decline in favour of a "focus on China's remaining institutional gaps *and the country's contribution to global public goods*".[66]

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[60] M. Chen, *The Latecomer's Rise: Policy Banks and the Globalization of China's Development Finance*, Ithaca and London, Cornell University Press, 2024.

[61] Z.Z. Liu, *Sovereign Funds: How the Communist Party of China Finances Its Global Ambitions*, Cambridge, Harvard University Press, 2023.

[62] Chen (2024), and Ibid.

[63] Liu (2023), and Ibid.

[64] N.R. Lardy, *China's Unfinished Economic Revolution*, Washington, DC, Brookings Institution Press, 1998, p. 253.

[65] Z. Ji, *A History of Modern Shanghai Banking: The Rise and Decline of China's Financial Capitalism*, Armonk, NY, M.E. Sharpe, 2003, p. 262.

[66] World Bank, IFC, and MIGA, "Country Partnership Strategy for the People's

Hedging against Western finance does not stop with domestic institutions. As early as the mid-1960s, China had begun to take strategic "steps into regional development banking" in the South.[67] It joined the Asian Development Bank (ADB) in 1966, the African Development Bank in 1985, and the Inter-American Development Bank in 2009. Its motives for *creating* the AIIB appear similar. Some scholars argue that the AIIB befits "a new international economic order in which [the PRC's] political power is more commensurate with its economic power";[68] others that the "AIIB's architects identified certain functional deficiencies in the performance of existing financial institutions and attempted to establish [a better] alternative".[69]

The AIIB is purposely based on the governance template of Bretton Woods. Its likeness to the World Bank reassures the private investors who are needed as partners in the New Development Assistance (NDA),[70] while furnishing to the PRC a policy platform outside US or European control. The AIIB was conceived within the framework of the Belt and Road Initiative (BRI), considering the timing of its debut a month after the Silk Road Economic Belt (SREB) was announced in Kazakhstan in September 2013.[71] Two factors favoured the AIIB: (1) Beijing's participation in the WB since 1980 which equipped it with

Republic of China for the Period FY 2020-2025", Washington, D.C., The World Bank Group, 2019.

[67] H.J. Gåsemyr, "China and Multilateral Development Banks: Positions, Motivations and Ambitions", Norwegian Institute of International Affairs (NUPI), 2018, p. 6.

[68] J.F. Paradise, "The Role of 'Parallel Institutions' in China's Growing Participation in Global Economic Governance", *Journal of Chinese Political Science*, vol. 21, no. 2, 2016, p. 149.

[69] E. Doron, "Balancing Effectiveness with Geo-Economic Interests in Multilateral Development Banks: The Design of the AIIB, ADB and the World Bank in a Comparative Perspective", *The Pacific Review*, 2020, p. 1.

[70] Y. Jing, A. Mendez, and Y. Zheng (eds.), *New Development Assistance: Emerging Economies and the New Landscape of Development Assistance*, Governing China in the XXI Century, Basingstoke, UK, Palgrave Macmillan, 2020.

[71] A. Mendez and M. Turzi, *The Political Economy of China-Latin America Relations: The AIIB Membership*, New York, Palgrave Pivot, 2020.

the knowhow to lead a comparable organisation; and (2) its deep worry that the Bretton Woods architecture is not being reformed in the aftermath of 2008.[72]

China's worry is not just about its own weight. It has pleaded for years (to no avail) that the WB should foster specifically infrastructure development for economic growth.[73] This is encapsulated in a 2009 report by the High Level Commission of the World Bank Group: "Repowering the World Bank for the 21st Century",[74] drafted with the input of Zhou Xiaochuan, the former Governor of the People's Bank of China. It was critical of three aspects of WB governance: (1) the expense of maintaining its resident Board (USD 70 million annually); (2) the lack of urgency in the process of approving critical projects for clients in emerging markets with a real need for fast access to funding; and (3) the excessive risk-aversion that all too often rejects prime sustainable development projects or puts gratuitous burdens on borrowers.[75] Genuine reform rides on the WB Governors' discretion to reformulate their internal procedures to prioritise the South's needs, or not.[76] The WB is unlikely to act without the US pushing it along. The AIIB is manifestly meant to answer these far-reaching concerns, which China shares with the Global South as a whole.

So far, the AIIB has been a diplomatic victory for China. It is not only winning the hearts and minds of most of the MDBs of the world, even the WB, but is keeping Washington and Tokyo isolated as well, so long as they are unwilling to join a successful institution that comes from China or anywhere else in the Global South. How things will play out in future is at the present moment unknowable.

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[72] D. Dollar, "Lessons for the AIIB from the Experience of the World Bank", The Brookings Institution, 27 April 2015.

[73] Dollar (2015).

[74] Commission, *Repowering the World Bank for the 21st Century: Report of the High-Level Commission on Modernization of World Bank Group Governance*, Washington, D.C., World Bank, 2009.

[75] Dollar (2015).

[76] A. Mendez and D.P. Houghton, "Sustainable Banking: The Role of Multilateral Development Banks as Norm Entrepreneurs", *Sustainability*, vol. 12, no. 972, 2020, p. 9.