ANALYSIS

ECONOMY AND FINANCE

CHINA AND THE GLOBAL FINANCIAL ARCHITECTURE

Keeping Two Tracks on One Path

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→ The world cannot function without China. China is a critical component of the global financial architecture as both a member of the international institutions and as an institution-builder.

→ China is not adequately accommodated for in the current global order. Unless the international institutions are reformed, China could decide to go its own way, threatening the integrity of the global financial safety net.

→ China is not a market economy nor a liberal democracy. Lacking shared values, the challenge for the G7 is to find areas of common interest where it can work with China, encouraging it to be a productive and engaged partner in the global order.

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Content

INTRODUCTION

The international financial architecture offers a multilateral framework for managing the global economy. On many occasions, President Xi Jinping has spelt out China's commitment to being an active and responsible partner within this framework, but he has also expressed disappointment and dissatisfaction with the slow reform of international financial institutions, specifically, the World Bank and the International Monetary Fund (IMF). Lack of significant progress has led China to establish new institutions, notably the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), and initiatives such as the Green Climate Fund (GCF) and the Sustainable Development Goals Finance Taxonomy (SDG Taxonomy). These institutions have been created to address gaps in the existing international financial architecture, such as the strong demand for infrastructure investment in Asia and the need to channel capital flows towards the United Nations' Sustainable Development Goals (SDGs) – for which the SDG Taxonomy has been established together with the UN Development Fund (UNDP).

Through active participation in economic institutions, China has contributed to the expansion of the existing financial architecture. At the same time, however, it has laid the groundwork for another network parallel to the existing institutions. This is an alternative path for China, who will have the choice of either continuing to participate in the existing framework or shifting towards a new, alternative financial infrastructure. The risk is that, as a result, the international financial architecture will become fragmented, weak, and unreliable.

The aim of this report is to develop a better understanding of both China's approach to the international financial architecture and China's role within this system. To uncover China's method, I focus on the two new multilateral development banks (MDBs), the AIIB and NDB, and China's bilateral initiatives in international lending for development. The key question at the centre of this report is what conditions would keep China engaged. Finally, this report identifies areas for multilateral collaboration.

The report is organised as follows. In the first section, I explore the concept of international public goods and the various multilateral bodies (i.e., the international institutional architecture) created to provide these goods. The international architecture is made up of three main components: the financial safety net, the MDBs, and non-financial institutions and informal groups. I discuss each of these components in turn, as well as the role of China within them, before examining the ways in which the rise of China has changed the dynamics of the international financial architecture.

In the second section, I turn to the AIIB and NDB. I examine the ways in which these institutions are critical for uncovering China's approach to global economic governance. The section compares the World Bank and other MDBs with the new banks to show that the latter are, in fact, intended to complement the former. This section also discusses China's approach to governance and to environmental and social standards within the context of MDBs. Lastly, it explores how the new banks offer a channel to strengthen "South-South Cooperation" (Xi, 2015) and provide a neutral setting for countries to work alongside each other.

In the third section, I argue that the creation of the AIIB and NDB happened at the peak of the 'golden age' of China's multilateral engagement. Having proved itself capable of building well-governed institutions, will China continue to engage with the rest of the world and within the existing institutional framework? In answering this question, I turn to China's bilateral initiatives and show that this is where frictions are likely to arise in the future. In particular, China's lack of transparency around its bilateral lending poses a problem for multilateral organisations and policy cooperation in relation to debt relief and debt restructuring.

I conclude by arguing that successful engagement and cooperation with China requires identifying common interests in areas such as development finance and infrastructure investment, debt relief and debt sustainability, and economic growth and environmental protection. Moreover, successful engagement is also contingent on a strong and responsive financial safety net underpinned by a reformed and more representative IMF.

1

THE INTERNATIONAL FINANCIAL ARCHITECTURE

1.1 PROVIDING THE INTERNATIONAL PUBLIC GOODS

The international financial architecture offers a framework for managing the global economy. It revolves around the provision of two international public goods: finance for development and a financial safety net. Imperfect may it be, this architecture has been an important element of stability for the international financial system by providing "liquidity, confidence, and adjustment" (Machlup quoted in Temin and Vines, 2013: 112).

The international financial architecture dates back to the Bretton Woods conference in 1944. Here, the delegates of 44 participating nations – but with the US and the UK in the driving seat – agreed to a system that would enable countries to pursue domestic macroeconomic policies in support of high levels of employment and output. The delegates approved the creation of the IMF and the World Bank, the institutional pillars of the post-war international financial architecture. Both institutions started their operation in 1946 and are based in Washington, D.C. The former was established to manage a system[1] of pegged-but-adjustable exchange rates,[2] and to provide short-term adjustment finance. By contrast, the World Bank was created with the view of providing longer-term finance in a world where international mobility of private capital was constrained.

Two other institutions were created at Bretton Woods: the General Agreement on Trade and Tariffs (GATT) and the United Nations (UN). Together with the IMF and the World Bank, these institutions delivered the international public goods around which the post-war economic order revolved, i.e. the promotion of international trade, economic development, full employment, and balance of payments adjustment.

Inevitably, these institutions have adjusted their goals and operations over the years in line with the demands and needs of their stakeholders. For instance, the concept of public goods under the aegis of the international financial architecture has been broadened to include human rights, workers' rights, and environmental standards. Financial support has also been used to leverage countries to improve their policies and standards, not always successfully. However, the multilateral institutional framework has ultimately been a force for good; it has helped to reconcile the needs and agendas of sovereign states with the dynamics of global markets. Despite recurring economic crises and tensions, the world has remained remarkably open and peaceful.

The multilateral institutional architecture is broadly made up of three components: the financial safety net, the MDBs, and non-financial institutions and informal groups. The following section examines each of these facets in turn before addressing the ways in which the rise of China has highlighted and exacerbated the shortfalls in the international institutional architecture.

1.2 THE FINANCIAL SAFETY NET

The financial safety net has four primary components: the IMF, regional financial arrangements, bilateral financial arrangements, and national foreign exchange reserves.

With 190 members, the IMF is the oldest, largest, and most important component of the financial safety net. Members contribute a quota in return for financial support, and their voting shares are determined by quota size. IMF support comes with conditions. These are intended to help countries restore financial balance and support economic growth but often have had unintended negative consequences in developing countries and a consequent distrust of the institution. In 2009, after the global financial crisis, the IMF added a non-conditional and precautionary liquidity line to its toolkit; this facility, however, has only been used by eight countries so far.[3] While the IMF is well

1 After the end of the Bretton Woods system in 1976, the IMF's Articles of Agreement were revised to ratify a new monetary system in which a country did not have to establish a par value for its exchange rate, but could instead have exchange rate arrangements of its own choice.

2 This system was established to avoid the risk of competitive devaluations (nevertheless, adjustments can be made in certain circumstances).

3 The eight countries that have used the non-conditional liquidity line are the Republic of North Macedonia, Morocco, Panama, Chile, Colombia, Mexico, Peru, and Poland.

equipped to monitor risks in the global financial system, it does not have the resources to adequately respond to a major global financial crisis, should one occur. Its total financial resources amount to US$1.4 trillion in quota subscriptions, but only 70 per cent of this is available for lending (approximately US$1 trillion) (IMF, 2021a).

Regional multilateral financial arrangements further contribute to the global financial safety net. The Chiang Mai Initiative (CMI) was established in 2000 after the Asian financial crisis. This is a network of bilateral currency swap arrangements and repurchase agreements. The initiative came from the ten Association of Southeast Asian Nations (ASEAN), plus China, Japan, and South Korea (the ASEAN+3). In 2010, the various components of the CMI were pulled together into a single arrangement, the Chiang Mai Initiative Multilateralization (CMIM). Resources amount to US$240 billion, 40 per cent of which can be deployed independently of the IMF and a precautionary line was added in 2014. Voting rights are determined by the size of the financial contribution made, which also inversely determines how much a country can borrow.

The European Financial Stability Facility (EFSF), another regional arrangement, was established in 2010 in response to the European sovereign debt crisis. It was a temporary measure, replaced by the European Stability Mechanism (ESM) in 2012. The ESM is made up of contributions from the eurozone governments and has a maximum lending capacity of €500 billion. This amount is small in comparison to the debt of some European countries; Italy's public debt, for example, is approximately €2.7 trillion.

The BRICS Contingent Reserve Arrangement (CRA) was established by the BRICS countries (Brazil, Russia, India, China, and South Africa) in 2015. It is a swap agreement totalling US$100 billion and serves to mitigate liquidity crises. CRA funds can only be disbursed when all the BRICS countries agree.

The third component of the financial safety net is bilateral swap lines. These are established when two countries make an agreement to purchase currencies from each other in the event of a liquidity crisis. Bilateral swap lines were used by the US Federal Reserve during the 2008 global financial crisis and have been adopted by many other central banks since. The benefit of swap lines is that they are flexible, easy to manage, and can be deployed quickly.

The final component of the financial safety net is comprised of national foreign exchange reserves that can be deployed when needed, sparing the country from relying

Box 1
China in the financial safety net

The IMF
China joined the IMF in 1945 and the relationship has not always been smooth. Long-standing issues include China's resistance of capital account convertibility and its share of the IMF quota and voting rights (at 6.08 per cent at the time of writing). China has shown support for the IMF by lending to countries via IMF initiatives in parallel with IMF support packages. In 2016, China's currency, the renminbi (RMB), was included in the IMF's Special Drawing Right (SDR) basket, formally marking it a key international currency.

The Chiang Mai Initiative Multilateralisation
China has been an active supporter of and contributor to the CMIM from its outset. China and Japan have each contributed US$77 billion and hold 28.41 per cent of the voting share. China tends to join arrangements such as the CMIM for strategic and diplomatic purposes, as the financial help that it can access is negligible in comparison to its foreign exchange reserves (Sterland, 2017: 14), which sit at around $3.25 trillion. However, China can only access US$10 billion from the CMIM without the IMF involvement, or US$34.2 billion with. The CMIM has provided an equal ground for China and Japan to cooperate with one another on a functional level.

BRICS Contingent Reserve Arrangement
At US$41 billion, China is the biggest contributor to the BRICS CRA. Brazil, India, and Russia have contributed US$18 billion each, and South Africa has contributed US$5 billion. China's contribution grants it access to US$21 billion. As with other arrangements, China's contribution to the arrangement is significantly smaller than the potentially accessible funds or the country's foreign exchange reserves.

Bilateral Currency Swaps
The People's Bank of China (PBoC), China's central bank, has pursued bilateral swap agreements at an unprecedented pace. It holds 31 swap agreements (with countries including South Korea, Hong Kong, the UK, Japan, Argentina, Mongolia, Pakistan, Russia and Ukraine) totalling over US$560 billion (Perks et al., 2021). The denomination in renminbi makes swap lines a low-risk instrument for China, which explains why the PBoC has pursued them with such intensity. The full details of which of China's swap lines have been activated are not available, but it is known that Russia activated its PBoC swap line to address liquidity needs in 2014 when western sanctions and falling oil prices pushed the ruble to its lowest level in twenty years (McDowell, 2019: 133–6; Subacchi, 2020: 220).

on external assistance. However, accumulating large foreign exchange reserves is not easy; it requires a country to put away financial resources that could be used for other purposes, such as development. This is particularly difficult for low-income countries with a limited export capacity.

1.3 THE DEVELOPMENT FINANCE LANDSCAPE

The World Bank and the regional MDBs are the main pillars of the multilateral development finance landscape. They focus on supplying financial resources to projects in areas such as infrastructure or health, which require long term investment commitments. Risks are high during the early phases of projects, while the underlying public infrastructure (often built in poor regions) tends to generate low or hard to collect revenues. The revenue stream generated is often insufficient to cover the debt service for high-interest rate loans at standard market terms. Concessional loans or adding some form of grants into the financing mix, support the financial viability of infrastructure projects and debt sustainability for the borrowing country.

The World Bank is the oldest, largest and, perhaps, the most important MDB. It was established in 1944 as the International Bank for Reconstruction and Development (IBRD), with the goal of reconstructing Europe after the Second World War. As the rebuilding of Europe progressed, the World Bank's focus shifted from reconstruction to development. With the establishment of the International Development Association (IDA) in 1960 – and the

Box 2
China in the major MDBs

The World Bank
China joined the World Bank in 1980, around the same time it began its economic reforms under Deng Xiaoping. It is the World Bank's second-largest cumulative borrower after India, having received US$64.6 billion in total (from 1980 through 2020) (Humphrey and Chen, 2021: 8). China has simultaneously been a significant contributor; it was the sixth largest donor to the World Bank's concessional lending window during the December 2019 replenishment (World Bank, n.d.). However, China's access to World Bank funding was curtailed as a condition of the 2018 capital increase package.* China has often criticised the World Bank for being too bureaucratic and for not putting enough focus or resources into infrastructure and industrial development. China holds 3 per cent of the voting shares.**

* Legislation has also been introduced in the US Congress that would curtail World Bank lending to China (Accountability for World Bank Loans to China Act, 2019).
** This is China's average voting share across the IBRD, IDA, IFC, and MIGA.

IDB
China became a non-borrowing member of IDB in 2009, following its increased bilateral lending to Latin America and after the US withdrew its long-standing opposition to Chinese membership (Lapper, 2007). When it joined, China contributed a total of US$350 million to various funds (IDB, 2009). It holds a tiny percentage of voting share at just 0.004 per cent; nevertheless, between 2010 and 2020, Chinese companies won US$1.7 billion worth of IDB-funded contracts.* During the same period, the US, which is the IDB's largest shareholder with a 30 per cent stake, was awarded only US$249 million worth of contracts. In 2021, the IDB's president called on the US to support a capital increase to offset China's influence in Latin America (Sevastopulo, 2021).

* This makes China the fourth largest recipient of IDB deals after Brazil, Argentina, and Peru (Sevastopulo, 2021).

AfDB
China joined the AfDB in 1985, a few years after it began accepting non-regional members. It is a non-borrowing member with a voting share of 1.396 per cent. China has become a large creditor in Africa, but it is unlikely that its shareholding in AfDB will increase (Humphrey and Chen, 2021: 10). AfDB has signed memorandum of understandings (MoUs) with the Export-Import Bank of China (Exim Bank), China Development Bank (CDB) and the Agricultural Bank of China.

ADB
China joined the ADB in 1986 to further support its economic reforms. It is the ADB's second-largest cumulative borrower after India and has received a total of US$41.5 billion (through 2019) (Humphrey and Chen, 2021: 8). It also contributes a significant amount of funding to the bank. China's voting share is 5.437 per cent. The US and Japan have urged the ADB to stop lending to China, arguing that it is rich enough to "graduate" from receiving aid (Yukihiro, 2019).*

* A senior Japanese finance ministry official has stated that stopping ADB loans to China would change the "double standard" wherein China exercises influence over emerging economies through the AIIB while simultaneously receiving aid itself (quoted in Yukihiro, 2019).

EBRD
China joined the EBRD as a non-borrowing member in 2016. It made several contributions upon joining, including €44 million to the Chernobyl Fund (Humphrey and Chen, 2021: 10) and €250 million to the Equity Participation Fund (McCrum, 2016). China's voting share is 0.096 per cent.

creation of the World Bank Group – the World Bank came to have a particular focus on poor developing countries. The IBRD provides loans, guarantees, risk management products, and advisory services to middle-income and creditworthy low-income countries, while the IDA extends credit and grants to boost economic growth, reduce inequalities, and improve livelihoods in low-income countries. In addition, three other institutions also comprise the World Bank Group. The International Finance Corporation (IFC) focuses exclusively on the private sector in developing countries. The Multilateral Investment Guarantee Agency (MIGA) provides investment with guarantees for developing countries. Finally, the International Centre for Settlement of Investment Disputes (ICSID) is a forum for investor-state dispute settlement. The World Bank has almost global membership.

Following in the World Bank's footsteps, four major regional MDBs emerged in the decades after its establishment. First, the Inter-American Development Bank (IDB) was founded in 1959 to address the needs of Latin American countries, as well as to ease US concerns over the spread of communism in the region (Babb, 2009). IDB started infrastructure financing in the 1970s, but its focus has previously been on social projects. It has 48 member countries, US$177 billion in subscribed capital, and is based in Washington.

The African Development Bank (AfDB) was established in 1964 to increase cooperation and a sense of unity in the region. It was an exclusively African institution until it permitted non-regional members to join in 1982. It has 81 member countries, US$145 billion in subscribed capital, and is based in Côte d'Ivoire.

The Asian Development Bank (ADB) was established in 1966 to promote cooperation and unity within Asia. For the ADB, infrastructure has been at the forefront of its operations from the start. It has 68 member countries, US$153 billion in subscribed capital, and is based in the Philippines. The US and Japan are the largest shareholders, 12.751 per cent each, but the latter is responsible for setting the bank's operational direction.

The European Bank for Reconstruction and Development (EBRD) was established in 1991 to help former Soviet and Central and Eastern European countries transition from planned to market economies. Unlike the other regional MDBs, the EBRD's mandate – to support democracy – is explicitly political. The bank has 70 member countries, €30 billion in subscribed capital, and is based in London.

1.4 OTHER INSTITUTIONS AND INFORMAL GROUPS

In addition to the MDBs and the financial safety net, there are other institutions and informal groups that play a significant role in the international financial architecture. An exhaustive analysis transcends the objectives of this report; it is nonetheless necessary to mention two informal groups, the Group of Twenty (G20) and the Paris Club, and two non-financial international institutions, the UN and the GATT/World Trade Organisation (WTO).

The G20 is an intergovernmental forum representing the world's largest economies. It was founded in 1999 as a meeting of finance ministers and central bank governors to coordinate policies in response to the decade's recurrent crises in emerging markets. After 2008, the G20 became the premier international forum for economic policies, taking over the status from the Group of Seven (G7), which had by then become the Group of Eight (G8) after including Russia in 1997.[4] The G20 has 19 countries (including China) and the European Union (EU) as members. The G20 doesn't have a permanent secretariat; instead, the chair rotates annually among its members.

The Paris Club is an informal group of creditor nations that come together to find workable solutions to payment difficulties experienced by debtor nations. It dates back to 1956 when Argentina agreed to meet its public creditors in Paris. Since then, the Paris Club has made 477 arrangements with 101 different debtor countries, treating a total of US$612 billion in debt (Paris Club, 2022).[5] It has 22 permanent members. The IMF, World Bank, Organisation for Economic Co-operation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD), European Commission, AfDB, ADB, EBRD, and IDB are observers and can attend the sessions.

The UN was established as an inter-governmental organisation in 1945 to maintain international peace and security, including promoting social progress and better living standards[6]. It currently has 193 members. In 2015, all UN member states adopted its 2030 Agenda for Sustainable Development, which provides a roadmap for a peaceful and prosperous planet. The 17 SDGs are at the heart of this agenda and constitute a global call to action to tackle climate change while also addressing problems in the areas of health, education, inequality, and economic growth.

The WTO was originally founded as the GATT in 1948 to liberalise international trade through the reduction of tariffs and other non-tariff barriers. It summarised these changes to trade barriers in its principle of 'most favoured nations', which compelled members to engage with all their trading partners on an equal basis. The GATT underwent eight trade rounds between 1947 and 1994; in 1995, it was replaced by the WTO. It now has 164 member states, representing over 98 per cent of international trade. Its remit covers areas that were not under the GATT, such as trade in services, intellectual property rights, and dispute settlement.

4 Russia was suspended indefinitely in 2014 after the annexation of Crimea.

5 As of January 24, 2022.

6 The IMF and the World Bank Group are specialised agencies of the UN system, meaning that they are autonomous institutions that work with the UN under negotiated agreements.

Box 3
China in other institutions and informal groups

The UN
China joined the UN in 1945 as one of its founding members and is now its second-largest contributor after the US (Feltman, 2020). Its influence has grown over the years. On the UN Security Council, China has aligned itself with Russia to challenge the protection of human rights and humanitarian access (Ferdinand, 2013).

The WTO
China became a member of the WTO in 2001 when it was the world's sixth largest exporter. It has been an active member and has participated as both a complainant and a respondent. It has generally abided by WTO rulings, changing laws and regulations when necessary, although not always with the desired speed and efficiency. The G7 has pushed for China (and other large emerging markets) to assume equal trade obligations at the WTO, but China has sought to keep its developing country status. It is not a member of the WTO's Government Procurement Arrangement.

The G20
China joined the G20 in 1999. The relationship has not always been smooth; in the early 2010s, for example, the G20 became the channel for the US to attack China's exchange rate policy. However, the G20 has also offered China a valuable space. The 2019 G20 Summit in Osaka, for example, hosted the bilateral meeting between President Xi and President Trump, where they decided to resume talks during the US-China trade dispute.

The Paris Club
China is not a member but participates as a creditor on an ad hoc basis.* In 2020, it agreed to participate in the Common Framework for Debt Treatments, an agreement between the G20 and the Paris Club to coordinate debt treatments for countries eligible for the G20's Debt Service Suspension Initiative (DSSI)**, a G20 initiative in response to the COVID-19 crisis to suspend bilateral debt repayments for the poorest countries.

* Two-thirds of Chinese debt restructurings have occurred independently of the Paris Club (Bon and Cheng, 2020).
** Thomas Lambert, the Paris Club's Deputy Secretary-General from 2004 to 2006, has warned of linking the Common Framework too closely to the Paris Club; "[China doesn't] want to be part of a club that ties them to the domination of the West," he says, "But in reality, the Common Framework is the beginning of rebuilding a broader Paris Club with the same principles" (Horobin and Soto, 2021)..

1.5 CHINA'S GROWTH AND THE FUTURE OF THE INTERNATIONAL FINANCIAL ARCHITECTURE

The international financial architecture is not set in stone; the institutions adjusted and adapted over the years to reflect the changing dynamics of the world economy. Since the end of the Second World War, nothing has altered the dynamics of the world economy as much as the rise of China. Three aspects of China's growth have a specific impact on the international financial system and are thus relevant to the discussion here (Drysdale et al., 2017: 258–9). The first aspect is the size of China's banking and financial sector in relation to the global financial safety net. Since 2008, China's financial system has grown to become systemically important. It is now one of the largest in the world with financial assets amounting to nearly 470 per cent of gross domestic product (GDP) (IMF, 2017). It has also become more complex and further integrated with the rest of the world through investment flows and direct lending. This has increased the risk of large external financing requirements and the transmission of shocks.[7]

7 Arguably, China has foreign exchange reserves that are larger than its short-term financing requirements; furthermore, it has ample fiscal space and substantial domestic buffers to fend off financial stability without relying on international support.

The second aspect relates to China's large savings. Gross national savings amount to roughly 45 per cent of GDP in 2020, one of the highest rates globally. Given the size of China's GDP, these large savings can create large external imbalances and impact international financial stability.

The final aspect arises from the large gap between supply and demand for development finance. In Asia, for example, the gap in infrastructure investing between 2010 and 2020 was approximately US$8 trillion, more than 60 times the amount given annually in development assistance (Bhattacharyay, 2010: 11). This investment gap, coupled with China's surplus, has created the space for China to transition from a borrower to a lender – particularly in development finance – and use its supply of savings while also expanding its influence in recipient countries.

These three aspects of China's growth – the size of its economy and financial sector, its surplus of savings, and its role as a lender – carry two critical consequences for the future of the international financial architecture. First, the sheer size and impact of China's economy and financial sector make clear the need for the governance reform of the international financial institutions. China and the large developing countries, notably the other BRICS, need voting rights that more accurately reflect their economic weight. Such reforms will increase the financial capacity of the institutions such as the IMF and strengthen the multilateral safety net.

The second consequence – related to China's role as a lender – is that the integrity of the global financial safety net may diminish. China is now in a position where it can engage in both bilateral and multilateral lending and has taken an active role in setting up two new MDBs (the AIIB and NDB). By spearheading the creation of these new banks, China has shown that it is able to create new multilateral institutions while also keeping the institutional architecture evolving. A close look at the AIIB and NDB is critical for uncovering China's approach to global economic governance, and so I'll return to these institutions in detail in Section 2. The risk, however, is that by spreading its financial wings too widely, China may fragment the global financial safety net, reducing its coverage, responsiveness, and predictability, and leaving some countries exposed to systemic risks.

1.6 REFORMING THE INTERNATIONAL FINANCIAL ARCHITECTURE

Developing countries have been calling for changes to the global financial architecture since the mid-1990s when some of them experienced financial crises. China has been one of the strongest advocates for the restructuring of the existing global financial architecture on behalf of developing countries. President Xi has made clear the intention for "China [to] lead the reform of the global governance system with the concept of fairness and justice," and Foreign Minister Wang Yi has clarified that "fairness" in this context means "support[ing] the expansion of the representativeness and the right of speech of developing countries" (Xi and Wang quoted in Heath, 2018).

The G20, as the 'global steering committee', has pushed the reform of the IMF and the World Bank and so the increase of the resources of those financial institutions. Better governance and more resources for the multilateral institutions would improve cooperation in other areas such as trade, energy, climate, and global health. Actual reform, however, has been proceeding at a pace much slower than the world economy has been evolving.

The need to reform the IMF voting rights and quota allocations to better represent the composition of the world economy epitomises the sticky path to improving global governance. In 2010, the G20 agreed to the 14th General Review of Quotas at the IMF. To reach an agreement, China, as a quid pro quo, increased its contribution to the IMF's emergency funds. This reform delivered a 100 per cent increase in total quotas and a major realignment of quota shares from the advanced European countries and Gulf States to emerging countries. On the back of this realignment, China is now the third-largest member country in the IMF, and the four BRIC countries are all among the ten largest shareholders. However, China's representation in the IMF relative to its share of the global economy is still askew. Its voting share at 6.08 per cent is slightly lower than Japan's 6.14 per cent but well below the US' 16.50 per cent. Notably, the US Congress took five years to approve this review, meaning that it only became effective in January 2016.

On the outset, it might appear that restructuring existing institutions so that voting share matches global economic participation is a reasonable and feasible ask from China. However, increasing China's quota to match the size of its economy would require other large countries, and specifically the US, Germany, France, and the UK, to reduce their shares to some extent. While it would be possible to expand the overall size of the existing institutions if all members were prepared to contribute in proportion to their actual quotas, a significant redistribution to increase China's share would be a zero-sum game. This is a game that none of the large shareholders seems prepared to play.

Given this fact, an alternative approach for China is to create new institutions and organisations that are more representative of the emerging markets and developing countries. The creation of the AIIB and NDB, and, to some extent, the launch of the Belt and Road Initiative (BRI), are exemplary of this approach. The critical question is whether these institutions are the first signals of an emerging multi-tiered and multi-centred global governance system (Chin and Freeman, 2016: 17). I turn to these new institutions in detail in the next section to uncover what they can tell us about China's approach to global economic governance.

2

BUILDING INSTITUTIONS

2.1 MULTI-PRONGED AND MULTI-LAYERED APPROACH

China has promoted a series of new initiatives that emphasise cooperation between emerging markets and among Asian economies. Along with the establishment of the AIIB and NDB, it has launched the BRI, created the CMIM, and supported the internationalisation of the renminbi. The country has also been working collaboratively on regional economic issues within the Asia-Pacific Economic Cooperation (APEC), ASEAN+6[8], and the East Asia Summit.

In 2009, a few weeks before the G20 London Summit, Zhou Xiaochuan, the governor of the PBoC, published an essay on the bank's website (in both English and Chinese). In the essay, he argued for the reform of the international monetary system to make it less dependent on national currencies. Though he did not explicitly mention the dollar, he advocated for the creation of "a super-sovereign reserve currency" (Zhou, 2009). Governor Zhou's essay anticipated China's renminbi strategy, which was rolled out as a pilot scheme a few weeks later and in full in 2010. The idea was to develop the renminbi as a fully-fledged international currency through policy measures while maintaining controls over capital movements. In those years, the Chinese leadership supported the idea of a multi-currency international monetary system that could reflect an increasingly multipolar world economy. This thinking became part of the agenda of the G20 chaired by France in 2011 and was then expanded during the Chinese G20 presidency in 2016.

The BRI is connected to the internationalisation of the renminbi. Launched in 2013 with the tagline 'One Belt, One Road', the initiative promotes infrastructure development in 60 countries in Asia and neighbouring regions. More specifically, this initiative was conceived to facilitate infrastructure projects that connect China to the rest of the Asia-Pacific region via maritime routes and Europe via Central Asian land routes. It was intended to fill the gap in infrastructure demand and support cooperation between China and the rest of the world. By raising capital and deploying it in infrastructure projects, the Chinese monetary authorities reckoned that the BRI could lead to an increase in the renminbi's liquidity and its international usability. In addition, it could boost renminbi-denominated outward direct investment while also encouraging the holding of renminbi as a store of value (Liu et al., 2017: 7–8).

China's effort to launch new initiatives and create new institutions peaked in 2016 when the AIIB and NDB began their operations. The Chinese government announced the creation of the AIIB in 2013[9], and the 50 founding members signed the bank's charter in June 2015. The plan for establishing NDB was discussed at the fourth BRICS Summit in New Delhi in 2012, and the Articles of Agreement were signed at the sixth BRICS Summit in Fortaleza in 2014.

The creation of AIIB caused a considerable amount of upset in the US, especially because many US allies, including the UK, joined the new bank despite American warnings. Many in America felt that their country had lost its role "as the underwriter of the global economic system" (Summers, 2015). During the signing of the bank's Articles of Agreement in June 2015, President Xi reiterated AIIB's open invitation to the US and Japan to join. ASEAN members did, in fact, expect the US to join the new bank and, as private discussions have revealed, thought that the US government was making a big mistake by not coming on board. Against the backdrop of China's exclusion from the US-led Trans-Pacific Partnership, Xi's invitation sounded generous, but it was an empty offer. Arguably, the US would not join an institution if they or one of their close allies were not in the driving seat; similarly, an organisation jointly led by China and the US with equal quotas and voting rights would not be possible nor feasible.

Both the AIIB and NDB stemmed from the idea that, since developing countries are critically dependent on development finance and infrastructure investment, this cannot be left solely to the developed world. In addition, the creation of these new institutions addressed China's will to leave its footprint on development finance and establish its reputation as a trustworthy player in the international order.

8 The group comprises the ten countries of the Association of Southeast Asian Nations (ASEAN) and six other countries in the Asia-Pacific region.

9 The idea for the AIIB originated from the Chinese think tank the China Center for International Economic Exchanges (CCIEE) in 2009 (Callaghan and Hubbard, 2016: 121).

The remainder of this section focuses on the AIIB and NDB; operations and goals behind these banks highlight China's approach towards global economic governance. By comparing the AIIB and NDB with the World Bank, section 2.2 argues that the new institutions are intended to complement the existing ones. Section 2.3 then looks at NDB and AIIB in detail. Finally, Section 2.4 concludes with an analysis of the operations of the new MDBs and a discussion about whether they have departed from the World Bank model.

2.2 THE WORLD BANK SETS THE MODEL …

The AIIB and NDB are the first MDBs to be established by China. Accordingly, there has been a considerable amount of debate about how they will fit into the existing international financial architecture —if they were even intended to fit into it at all. The design of both organisations suggests that they are intended to complement the existing institutions as neither represents a clear departure from the existing MDBs (Wang, 2019). Their governance and Articles of Agreement are modelled after those of the World Bank and include features from regional MDBs such as the ADB. These details, including similarities and points of departure, are addressed in Section 2.3. First, this section provides a brief outline of the World Bank model.

The World Bank began its operations after World War II with around 30 to 40 staff and 45 member countries (see Table 1). It has since grown to have almost global membership. Members contribute a capital subscription to the bank, which in turn determines their share of voting rights.[10] Countries that can contribute the most capital (historically, these have been developed western countries) have the biggest say in how the bank is run. The US is the biggest shareholder; it has 15 per cent of the voting shares.[11] This means that the US has veto power over certain matters. Large developing countries, on the other hand, are underrepresented based on their weight on the world economy.

The World Bank has a three-tiered governance structure consisting of a board of governors, a board of directors, and a senior management team headed by the bank's president. The board of governors is the highest decision-making body and consists of one governor and one alternate governor per member country (typically, this role is filled by ministers of finance or development). The governors delegate certain duties to the directors, who work on-site at the bank's headquarters. The directors are responsible for the general operations and conduct of the bank. The board of directors is comprised of 25 executive directors who represent different constituencies of member countries. The largest shareholders – the US, Japan, Germany, France, and China – each have their own constituency, as do the UK and Saudi Arabia. Many of the constituencies representing developing countries are crowded, such as those representing Sub-Saharan Africa and Asia. The president and the senior management oversee the daily operations of the bank. Informal arrangements have ensured that the president of the World Bank is always a US American.[12] Similarly, the president of the ADB has always been Japanese.

The World Bank currently has two main goals: ending extreme poverty and increasing overall prosperity. These goals are broad and can only be achieved by implementing a wide range of programmes in areas including but not limited to finance, economic policy, private and public sector development, environment and natural resource management, social development and protection, and urban and rural development. Infrastructure is, of course, on the World Bank's agenda, but it is one of many items, and the bank's resources are stretched.[13]

Loans from the World Bank always come with conditions. This has been a source of criticism and discontent among the bank's clients. The World Bank has also been criticised for its lengthy, bureaucratic decision-making processes. Indian officials, for example, have complained of the "tremendous problem" of delays when seeking approval for World Bank-financed infrastructure projects, which often take over two years.[14]

2.3 … AND THE NEW MDBS FOLLOW

The World Bank and the new MDBs share a similar approach and have analogous objectives and functions; they are all multilateral and part of the rules-based international system. In the words of AIIB's Vice President of Policy and Strategy Danny Alexander, the "AIIB is firmly established as part of the family of multilateral development banks" (Center for Global Development, 2020: 6.27).

Like the World Bank, both the AIIB and NDB have a traditional three-tiered system of governance consisting of a board of governors, a board of directors, and a senior leadership team headed by a president. The ADB also shares this governance structure. However, to avoid some of the drawbacks of the World Bank, the architects of the new MDBs altered this template. The resulting structures are leaner and have more streamlined decision-making processes.

10 Each World Bank Group institution has its own shareholding structure.

11 This is the US's average voting share across the IBRD, IDA, IFC, and MIGA.

12 With one exception when Korean-American Jim Yong Kim held the role between 2012 and 2019.

13 A 2020 communique from the joint World Bank and IMF Development Committee stated that the World Bank Group needed to review its financial capacity to ensure that it remains "adequately capitalized to fulfil its mandate" (Lawder, 2020).

14 The Indian government tried to spur the World Bank to clear up the "clutter" and move more quickly on infrastructure projects. The lack of infrastructure finance is further compounded by the reality that private finance for infrastructure has fallen off sharply since the 2008 global financial crisis (Chin, 2016: 18).

Table 1
The World Bank, ADB, AIIB, and NDB – then and now

	World Bank	ADB	AIIB	NDB
Headquarters	Washington, D.C. United States	Manila The Philippines	Beijing China	Shanghai China
Operations began	1946	1966	2016	2016
Capital (US$, bn)	10	1	100	100
Number of staff	30–40	40	79	58
Member countries	45	31	57*	5
		2020		
Capital (US$, bn)	280	153	100	100
Number of staff	12,300	3,646	316	185
Member countries	189	153	103**	5

* At the end of 2016, 50 countries were full members, and seven more were in the process of ratifying the Articles of Agreement.
** At the end of 2020, 83 countries were full members, and 20 more were in the process of ratifying the Articles of Agreement.
Note: Capital is total authorised capital.
Source: (World Bank, 2017; World Bank, 2021; ADB, 2017; ADB 2021; AIIB, 2017; AIIB, 2021; NDB, 2017; NDB, 2021)

Both banks began their operations with US$100 billion in total authorised capital. This is significantly more than the US$10 billion the World Bank started with in 1946 and the US$1 billion that ADB launched with in 1966. However, neither AIIB nor NDB has undergone a capital increase in the years following their establishment, whereas the World Bank and ADB now have significantly higher capital (US$280 and US$153 billion, respectively). Both the AIIB and NDB are medium-sized compared to the World Bank and ADB (Table 1).

By the end of 2020, the AIIB had 103 members[15] (Table 1). The countries altogether represent 79 per cent of the world's population and 65 per cent of global GDP. As a way of comparison, it is worth noting that the G20 countries, which include the US and Japan, represent about 80 per cent of global GDP. By number of members, the AIIB is the second-largest MDB after the World Bank. Both the membership of the AIIB and that of the ADB have roughly doubled since they were founded; the ADB has grown from 31 members in 1966 to 68 in 2020, and AIIB from 57 members in 2016 to 103 in 2020.

15 Two more countries have since joined bringing the total up to 105 member countries (as of January 2022).

AIIB membership is open to all members of the World Bank and ADB, yet neither the US nor Japan have joined. Like the ADB, the AIIB divides its members into two categories: regional and non-regional. Asia is defined in line with the broader UN classification of Asia and Oceania, enabling countries such as Turkey, Cyprus, Saudi Arabia, and the United Arab Emirates (UAE) to be regional members.

Like the World Bank, AIIB's capital allocation is based on "the relative share of the global economy of members […] by reference to Gross Domestic Product" (AIIB, n.d.: Art. 5, Para. 4), and its voting shares are weighted in line with member countries' shareholding. China is the biggest shareholder, having committed US$29.78 billion[16] – 30.8 per cent of the bank's total. This quota grants China 26.53 per cent of voting rights[17] and veto powers over certain matters, including capital increases, changes in a members' capital subscription, and appointing or removing the president.[18] While the

16 China's paid-in share capital investment in the AIIB is US$5.96 billion (as of June 2021).

17 All AIIB capital and voting shares as of January 21, 2022.

18 To constrain the influence of large shareholders, 15 per cent of AIIB voting rights are distributed equally among the founding members. Nevertheless, this has not much diluted China's influence.

US does hold veto powers within the World Bank, its voting share is significantly less than China's share in the AIIB (see Table 3), and it cannot appoint or remove the president.

The NDB has a significantly smaller membership than the ADB, AIIB and World Bank (Table 1). The five BRICS countries were founding members, and the NDB continued to have just five members at the end of 2020. Membership is open to all members of the UN, but the bank's President, Marcos Troyjo, has stated that the bank will expand its membership in a "gradual and balanced manner" (NDB, 2021b). Quotas are balanced among the five members. No single member has veto powers; this was a conscious decision not to mirror the IMF and World Bank governance.

The AIIB has established three thematic priorities for its financing: sustainable infrastructure, cross-border connectivity, and private capital mobilisation. Like the World Bank and the other MDBs, the AIIB uses an array of traditional financing tools such as loans, guarantees, and equity investment provided on a sovereign and non-sovereign basis. Terms for fixed-rate loans offered by the AIIB to sovereign borrowers are identical to those offered by the World Bank[19] (Humphrey, 2020:14). During the initial crisis sparked by the COVID-19 pandemic, the AIIB offered temporary policy-financing – i.e. budget support – to its members in partnership with the World Bank and ADB. Despite the goal of developing sovereign and non-sovereign lending as equal parts of the organisation, most of the COVID-19-related lending went to the public sector.

NDB's lending is centred around maximizing the impact of development in a fast, flexible and efficient manner. The bank has several key areas of operations, including digital infrastructure, clean energy, and environmental efficiency. Like the other MDBs, NDB's offering consists of a variety of different instruments such as sovereign and non-sovereign loans, guarantees, equity participation, technical assistance and Covid-related support.

2.4 THE NEW BANKS AND CHINA'S APPROACH TO GLOBAL ECONOMIC GOVERNANCE

China plays a significant role in both the AIIB and NDB. Their first years of operations thus offer some indications about China's approach to economic governance. However, a more granular look at certain aspects of both banks suggests that China plays a greater role in the AIIB than the NDB. The AIIB has more financial resources and a greater potential to generate capacity, and these may be contributing factors for China choosing to focus its efforts here.

The creation of AIIB was unilaterally announced by Chinese leader Xi Jinping in 2013. While the tone of the announcement was open and inclusive, President Xi's stated that the bank would "enable ASEAN countries to benefit more from China's development", making it clear that China would be leading (Xi, 2013). AIIB's focus on infrastructure investment is in line with and reflects the Chinese government's approach to overseas investment and the engagement with the rest of the world that can be observed in programmes such as the BRI (Grieger, 2021).

As for the NDB, the idea for this bank originated in India.[20] When it was established, its US$100 billion authorised capital was divided into one million shares[21], and each of the five founding members made an initial subscription of US$10 billion, granting them each 100,000 shares and 20 per cent of voting rights. Put simply, the BRICS countries all contributed an equal amount of capital in return for an equal share of the voting rights. Initially, China was hesitant about the NDB, especially around the issue of how the bank would perform under equal leadership (Cooper, 2017). Ultimately, China was willing to go along with the equal governance model because of its leading role in the AIIB (He, 2016; Liu, 2016).

When both banks began their operations, only the AIIB had its total authorised capital fully subscribed; the NDB had half. Out of the AIIB's authorised capital, 80 per cent is callable and 20 per cent is paid-in. The World Bank's share of paid-in capital is much lower, at 5 per cent (as is the case for the other MDBs, apart from the EBRD). Ten per cent of the NDB's capital is paid-in.

The AIIB has been a successful diplomatic project, with many members in Europe, Africa, and the Americas. Out of 103 members, 5 are G7 nations and 19 are EU member states (all non-regional, apart from Cyprus). This large mixed membership of developing and developed countries puts the AIIB in a good position to borrow from international capital markets (Wang, 2019: 230). Since 2017, the bank has received AAA ratings with a stable outlook from the top international credit rating agencies[22]. This recognition has helped the bank successfully tap international capital markets, issue bonds, and broaden its funding sources through local currency-denominated bond issuances and private placements. The AIIB debut global bond was issued in 2019.[23] This US$2.5 billion five-year bond attracted over 4.4 billion orders from over 90 investors representing 27 countries across the world (AIIB, 2019).

In contrast, the NDB is made up entirely of developing countries, rendering it similar to a credit union that pools resources to fund the development of its members (Wang, 2019: 224). Members are all both lenders and borrowers. While the

19 As of January 2020.

20 Indian Prime Minister Manmohan Singh first proposed setting up a new institution for infrastructure development at the 2010 G20 Summit in Seoul.

21 Each share has a par value of one hundred thousand dollars each.

22 Standard & Poor's, Moody's and Fitch.

23 The AIIB's debut renminbi bond was issued the following year, in June 2020. The RMB3 billion issuance (with a 3 year maturity) were 2.78 times oversubscribed by more than 20 investors (with 35 per cent allocated to domestic and 65 per cent to international investors) resulting in a final book size of RMB8.34 billion (AIIB, 2020).

bank approved the principles for admitting new members in 2017 (NDB, 2017b), only four countries have applied. Bangladesh and the UAE became members in September 2021 and October 2021[24] respectively, and Uruguay and Egypt are currently prospective members. Critically, the NDB's charter states that donor countries cannot account for more than 20 per cent of the total shares, and no individual new member can account for more than 7 per cent (NDB, 2014: Art. 8). This limits the bank's options for expanding its capital.

The NDB's credit rating is lower than that of the AIIB; it received an international rating of AA+ with a stable outlook in August 2018.[25] As such, its access to international capital markets is more limited. Other than China, member countries have sovereign ratings below or bordering investment grade. The NDB has had to lean heavily on the Chinese market as a result.[26] It issued its first bonds (denominated in renminbi) in China's interbank bond market in 2016[27], but it was not until June 2020 that it issued its inaugural bond in international capital markets. This US dollar-denominated bond amounted to US$1.5 billion with a maturity of three years and an issue yield of 0.66 per cent. This was followed by another bond amounted to US$2 billion in September 2020.[28]

The AIIB and NDB both started out with a similar number of staff, but the former has seen a fourfold increase from 79 in 2016 to 316 in 2020. In contrast, staff at the NDB has increased approximately threefold from 58 in 2016 to 185 in 2020 (see Table 1).

While China is the majority shareholder at the AIIB and has veto power (see Table 3), it has not yet overtly flexed its power within the institution. Nevertheless, holding this power is significant, especially since the bank's charter is designed in a way that insulates the main shareholder's influence. It requires that at least 75 per cent of the bank's subscribed capital is provided by regional members[29], which, with Japan as a non-member, ensures that China will remain the largest shareholder in the AIIB. Hence, China seems willing to act multilaterally, but only so long as it controls the process, as is the case with regional banks and regional funds, or provides a counterbalance to the US as is the case with the Bretton Woods institutions.

2.5 A FRAMEWORK FOR ENVIRONMENTAL AND SOCIAL ISSUES

The AIIB has set itself rigorous environmental and social standards to support its goal of building sustainable infrastructure and implementing the Paris Agreement.[30] These standards also help define the bank's role in Asia's sustainable development and show that a China-backed MDB could meet global standards (CDB and UNDP, 2019).

The AIIB adopted its Environmental and Social Framework (ESF) in 2016. This document spells out three mandatory Environmental and Social Standards (ESS), each with detailed requirements: Environmental and Social Assessment and Management; Involuntary Resettlement; and Indigenous Peoples Social Framework. The bank's ESF requires the borrower to establish a suitable grievance mechanism in accordance with the Environmental and Social Policies (ESP) and applicable ESSs. In 2017, the AIIB issued its energy sector strategy, "Sustainable Energy for Asia", based on the UN's Sustainable Energy for All (SEforALL), the 2030 Agenda for Sustainable Development, and Nationally Determined Contributions (NDCs) under the Paris Agreement. The document does not strictly rule out investments in fossil fuels or nuclear power generation; however, it clarifies specific conditions for financing these projects.

The ESFs come from the World Bank's approach to sustainable investment, which includes social and environmental policies. They are now used by all MDBs and are periodically reviewed with best practices and standards of other multilateral institutions in mind (CDB and UNDP, 2019: 93). For example, the World Bank recently updated its ESFs to include standards for labour protection, working conditions, and community health and safety measures. Stakeholder engagement and information disclosure have also been improved in recent updates.

The World Bank encourages borrowing countries to develop their own ESFs to evaluate and implement projects. The country that receives an investment holds ultimate responsibility for project implementation. However, lenders are responsible for establishing mechanisms and tools to ensure transparency, accountability, stakeholder engagement, and compliance with environmental and social standards. Thus, the World Bank's ESF provides a template for national ESFs, which must be compatible with the Work Bank framework. Flexibility within national-level frameworks should enable borrowing countries to take more ownership over environ-

24 Bangladesh has a subscribed capital of US$942 million and it holds 1.84 per cent of exercisable votes. The UAE has a subscribed capital of US$556 million and it holds 1.10 per cent of exercisable votes. The shareholding of each of the founding BRICS members is 19.42 per cent as of (February 24, 2022).

25 Standard & Poor's and Fitch.

26 In 2016 and 2017, the NDB received an AAA rating from two Chinese investment agencies, China Chengxin International Credit Rating and Lianhe Credit Rating (Wang, 2019: 225).

27 In April 2019, NDB registered its debut ZAR bond Programme in South Africa. The Programme, which has a maximum size of ZAR 10 billion and unlimited validity, is listed on Johannesburg Stock Exchange (JSE) and governed by the laws of South Africa. On November 22, 2019, the NDB registered its debut RUB bond Programme in Russia. The Programme, which has a maximum size of RUB 100 billion and unlimited validity, is listed on Moscow Exchange (MOEX) and governed by the laws of the Russian Federation.

28 By the end of 2020, total accumulated bond issues reached US$3.6 billion and RMB13 billion (NDB, 2021a: 14).

29 Non-regional members account for 23.8 per cent of the AIIB's capital and 27.18 per cent of votes (as of January 18, 2022), with Germany, France, the UK, and Italy being the largest non-regional shareholders.

30 In October 2021, the AIIB announced that it would fully align its operations with the goals of the Paris Agreement by mid-2023 (AIIB, 2021b).

Table 2
AIIB projects – top locations

Member country	Number of Approved Projects	Total AIIB Approved Funding, US$ millions	Regional Member?	BRI Participant?
India	29	7074.67	Yes	No
Multicountry	15	2480.00	–	–
Turkey	14	3146.80	Yes	Yes
Bangladesh	14	2639.00	Yes	Yes
Indonesia	10	2899.90	Yes	Yes
China	9	2760.00	Yes	Yes
Pakistan	8	1711.81	Yes	Yes
Uzbekistan	7	1132.60	Yes	Yes
Philippines	4	1507.60	Yes	Yes
Egypt	4	1020.00	No	Yes
Oman	4	523.10	Yes	Yes
Georgia	4	364.00	Yes	Yes
Sri Lanka	3	460.00	Yes	Yes
Maldives	3	67.30	Yes	Yes

Note: All projects approved from the AIIB's inception until January 20, 2022.
Source: (AIIB, 2022).

Table 3
China and the US – voting shares in the international institutions

Institution	China's voting share (%)	US's voting share (%)	Country with veto powers
IMF	6.080	16.500	US
World Bank			
IBRD	5.420	15.560	US
IDA	2.350	9.910	–
IDB	0.004	30.006	US
AfDB	1.396	7.615	–
ADB	5.437	12.751	–
EBRD	0.096	10.000	The country in which a project is located has a veto right
AIIB	26.532	–	China
NDB	19.504	–	–

Note: '–' either indicates non-membership of an institution, or that no single country within an institution holds veto rights.
Voting shares are latest available as of January, 21 2022.
Source: (IMF, 2022; World Bank, 2021; World Bank, 2022; AfDB, 2021; ADB, 2021; EBRD, 2022; AIIB, 2022; NDB, 2022).

mental and social policies. However, the downside of this approach is the risk of imposing ESFs on countries with a limited capacity to respond to the requirements.[31]

Complying with environmental and social standards in infrastructure investment and implementing effective monitoring and reporting mechanisms can help align investments with the SDGs, strengthen transparency, and increase stakeholders' accountability. ESFs that emanate from MDBs increasingly address global sustainable development challenges and promote best practices in complying with environmental and social standards in development financing, identifying risks during project development and managing them effectively during project implementation.

Procurement is another area with far-reaching implications in terms of anti-corruption, value for money, and conflict of interests; the bar here needs to be set high. The World Bank's approach to procurement is based on a set of clear objectives, strict supervision on the use of loans, calls for fair competition, and openness for loan-based procurements. The World Bank procurement rules revolve around four components: implementation efficiency of a project, including the procurement of goods and civil works required for the project; fair chances to participate for all World Bank member bidders; support for borrowing countries to develop their industries and consulting services; and publicly available procurement procedures.

For the AIIB, it is critical to have a fair and transparent process to avoid accusations of being instrumental to the development policy of the Chinese government (Weiss, 2017; Zhu, 2019). While the details of approved projects are thoroughly documented on the AIIB official website, information about procurement contracts is not as readily available. The AIIB's policies require open and competitive bidding for contracts (AIIB, 2016), but Chinese state-owned enterprises have gained a large advantage over foreign competitors when it comes to infrastructure construction. For the purposes of public procurement, the AIIB considers Chinese state-owned enterprises to be private entities, which may ensure access to procurement markets that might otherwise be closed[32] (Grieger, 2021: 10).

2.6 DEEPENING TIES THROUGH DEVELOPMENT

The multilateral nature of the AIIB and NDB means that they offer ways to overcome bilateral tensions. For instance, so far, the new MDBs have provided a channel to strengthen "South-South Cooperation" (Xi, 2015) and a neutral setting wherein countries can work alongside each other. Even countries that otherwise are not on good terms are able to collaborate through this platform. This is particularly evident when looking at the relationship between China and India. Even though the tensions between the two countries run deep, China is clearly willing to support the banks' work with and in India. India, which has 8.6 per cent of capital and 7.59 per cent of voting shares, is the AIIB's second-largest shareholder[33]. The two countries coexist as members of the NDB on equal terms.

That the new MDBs provide China and India with common ground for collaboration is made even more apparent when looking at the portfolio of projects of both banks. Starting with the AIIB, India is the bank's biggest borrower (see Table 2), has received the most funding (over US$7 billion) and has the highest number of approved projects (29). Since its inception, the AIIB has approved 163 projects in total, amounting to US$32.82 billion in approved financing[34]. Two-thirds of these projects have been sovereign projects, which typically constitute a lower financial risk. The countries with the second highest number of AIIB projects are Turkey and Bangladesh with 14 approved projects each. Turkey's AIIB funding amounts to over US$3.1 billion and Bangladesh's amounts to over $2.6 billion. Out of the countries that host the most AIIB projects, India is the only one that is not also a member of China's BRI (Table 2).

India is also the biggest borrower from the NDB (see Figure 1). Between 2016 and 2020, the bank approved 72 projects amounting to US$25.7 billion.[35] Just under one-third of these projects are in India, which has received 28 per cent of the NDB's funding for this timeframe. China is NDB's second-biggest borrower, having received ten per cent of project approvals and 20 per cent of funding.

2.7 THE HIGHEST POSSIBLE STANDARDS

The AIIB is a Chinese-led institution that reflects China's approach towards global economic governance. However, this is not to say that the AIIB is an extension of the Chinese government. From its outset, the AIIB has had a strong focus on establishing its independence through high standards of governance. These have had the indirect outcome of improving China's reputation internationally. Adapting the governance template from the World Bank has been a way to strengthen the reputation of the AIIB as a credible and trustworthy institution. However, the new bank's architects have made some significant modifications to the World Bank framework. These are outlined below.

As is typical among MDBs, the AIIB's board of governors is its highest decision-making body and has certain reserved pow-

31 With support from the government of Japan, MIGA has set up an environmental and social trust fund that helps fund capacity building in Africa for borrowing countries to adapt to the World Bank's ESF. This is part of a relatively new effort to respect national "country systems" for social and environmental protection.

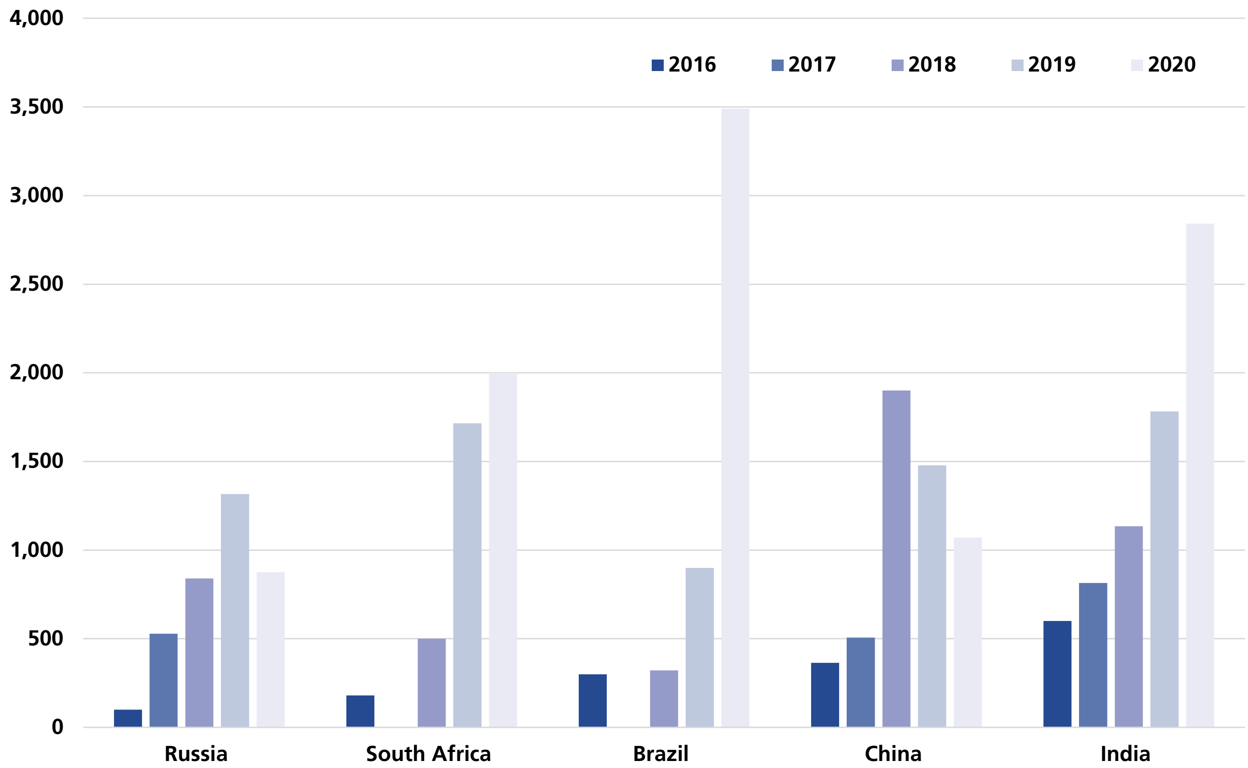
32 The AIIB has different procurement requirements for public and private entities (AIIB, 2016).

33 Russia is the bank's third largest shareholder, with 6.7 per cent of capital and six per cent of votes.

34 As of January 20, 2022.

35 However, four projects have been cancelled and one has been fully repaid.

Figure 1
NDB Project Approvals by Country (2016–2020), US$ millions



Source: (NDB, 2021a).

ers which cannot be delegated to the directors. In addition, the AIIB's board has further specifically-assigned powers, meaning that it also cannot delegate some important decisions, such as those related to changes in the definition of the Asia region, the 75 per cent regional shareholding requirement, or the establishment of subsidiaries (Lichtenstein, 2018: 57).

The AIIB's board of directors has 12 seats, each representing a constituency of member countries. Each AIIB director appoints an alternate director, and directors representing five or more member countries can also appoint a second alternate director. This increases opportunities for members to participate directly in the board's work (Lichtenstein, 2018: 59). The AIIB has departed from the typical MDB practice in having a non-resident board of directors. Although this feature is not unique, it has received a large amount of attention.

Generally, decisions by the AIIB's two boards require a majority vote (Lichtenstein, 2018: 65). China (along with Hong Kong) occupies one of the smallest constituencies in the AIIB's board of directors, but the AIIB leadership team has made it clear on numerous occasions that this is still just one seat out of twelve (Center for Global Development, 2020: 1.12.48).

The AIIB's board of directors operates with a substantial delegation of authority to the president. While this is a common practice in the private sector, it is unusual for international organisations. In 2018, the board of directors adopted an internal accountability framework which altered the division of responsibilities between itself and the president. Under this framework, the president is responsible for approving projects up to a certain threshold and must provide the directors with a summary of approvals every quarter. Again, this represents a departure from other MDBs where projects are approved jointly by the directors. The AIIB processes are more akin to private sector practice where the board sets the direction and holds management accountable. Any project can still be called in front of the board by any director, and members do expect this to happen for controversial or risky projects. The AIIB's oversight mechanism further serves to support the bank's approach to monitoring management. Central to this mechanism is the bank's complaints resolution, evaluation, and integrity unit. This unit centralises the management of sensitive issues that are typically addressed independently in other MDBs.

The AIIB president and vice-presidents are selected through an open, transparent, and meritocratic process which sets a new legal standard (Lichtenstein, 2018: 66). The president is elected by the bank's governors and chairs the board of directors. However, the president does not have the right to participate in votes. The board of directors appoints the vice-presidents on the recommendation of the bank's president. Jin Liquin, the AIIB's current and to-date only president, is a Chinese national, and the bank's five vice-presidents are from Germany, India, Indonesia, Russia, and the UK. President Jin has extensive experience in multilateral institutions; he previously served as vice president of the ADB and as alternate executive director for China at the World Bank.

Another innovative feature of the AIIB is the bank's use of outside experts on key committee functions, such as the audit and risk committee. Committee members are appointed by the board of directors, as is the case in some other MDBs, but it is a departure from common practice for committees to bring in independent experts.

The final feature worth mentioning is that the AIIB does not make its support conditional on reforms (as is the case with the World Bank). In addition, unlike other MDBs, the AIIB does not have a concessional lending window and is not a provider of foreign aid.

2.8 CAPACITY BUILDING THROUGH CO-FINANCING AND PARTNERSHIPS

Co-financing is common practice among development banks when it comes to infrastructure projects. These are high-risk because they are large, expensive, and come with a variety of complicated tasks, such as safeguarding and awarding procurement contracts. Co-financing allows not only to share the costs, but also to spread the risk and accountability. It also enables knowledge transfer and capacity building, critical for a young institution such as the AIIB. Finally, it ensures that projects are approved based on the value that they deliver for the borrowing country and not because they serve the interests of a particular member country.

The AIIB started out with a focus on co-financed projects (see Table 4). This emphasis meant that operations could be carried out with a relatively small staff. As of November 2020, 54 per cent of the AIIB's total projects were co-financed with other institutions (Smith-Juvelis, 2020: 4). The AIIB has signed a co-financing framework agreement with the World Bank and ADB and has signed Memorandums on joint cooperation with AfDB, ADB, EBRD, IDB, NDB, the World Bank, and various other funds and institutions. To facilitate co-financing, the AIIB has worked to make its environmental and social standards "functionally identical" to those of other institutions (Danny Alexander in Center for Global Development, 2020: 29.50).

The AIIB co-financed its initial infrastructure projects in BRI countries, e.g. the Bangladesh Natural Gas Infrastructure and

Table 4
ADB and AIIB Projects – 2016, 2018, and 2020

Bank	Approved Financing	2016	2018	2020
AIIB	Annual financing approved, US$ billions	1.69	3.31	9.98
	1. Approvals under co-financing arrangements, US$ billions (%)	1.26 (74.6%)	1.34 (40.5%)	–
	Number of projects approved	8	12	45
	1. Sovereign (%)	7 (87.5%)	8 (66.7%)	33 (73.3%)
	2. Non-sovereign (%)	1 (12.5%)	4 (33.3%)	12 (26.7%)
	Average financing per project, US$ millions	211.25	275.83	221.78
ADB	Annual financing approved, US$ billions	31.70	33.34	45.92
	1. Approvals under co-financing arrangements, US$ billions (%)	14.06 (44.4%)	13.81 (41.4%)	16.59 (36.12%)
	Number of projects approved	358	362	418
	1. Sovereign (%)	329 (91.9%)	327 (90.3%)	379 (90.7%)
	2. Non-sovereign (%)	29 (8.1%)	35 (9.7%)	39 (9.3%)
	Average financing per project, US$ millions	88.55	92.10	109.86

Note: '–' indicates that data is not available.
Sources: (AIIB, 2022a; ADB, 2022)

Efficiency Improvement Project with the ADB, the Philippines Metro Manila Flood Management Project, and the Azerbaijan Trans Anatolian Natural Gas Pipeline Project both with the World Bank. Collaborative co-financing also contributes to capacity building in partner countries and helps to ensure successful development outcomes.

AIIB has not yet co-financed any projects with Chinese policy banks. Nevertheless, the bank's leadership team has stated that "those partnerships are as open to us as any other partnerships provided the projects meet [the bank's] criteria" (Danny Alexander in Center for Global Development, 2020: 1.30.05). However, a deep or long-standing engagement with the policy banks would risk undermining the perception that the AIIB is separate and independent from the Chinese government and its direct emanations.

Over-reliance on co-financing also comes with some risks. One drawback is that it could constrain AIIB's capacity building. The bank has a lower staff-to-capital ratio than the World Bank or the ADB. The ADB has roughly 1.5 times the capital of the AIIB, but more than ten times the number of staff. In contrast, the World Bank has roughly three times the capital, but has 39 times as many staff (see Table 1). AIIB was designed to be a lean and cost-effective institution. However, this may constrain AIIB's options without co-financing.

3

CHINA AND THE EVOLVING LANDSCAPE OF GOVERNANCE

3.1 THE GOLDEN PERIOD OF CHINA'S MULTILATERAL ENGAGEMENT

The AIIB and NDB have been designed and developed to fit into and complement the international financial architecture. The AIIB, in particular, demonstrates how China can adapt the playbooks of the existing MDBs. This effort, as I have discussed in Section 2, has paid off for China by improving the country's reputation internationally. Even if the new institutions have a limited track record due to their relatively short life, their robust governance framework and environmental and social standards have nonetheless resulted in high-quality projects and partnerships with other development banks such as the World Bank.

There are two factors behind the effective building of these new institutions: China's willingness to learn from the World Bank's playbook and the advanced economies' willingness to engage with China as a rising power. Indeed, the initiatives that China promoted in the years after the global financial crisis – discussed at the beginning of the previous section – were unveiled in an environment of moderate reciprocal trust and understanding, during the height of Robert Zoellick's 'Responsible Stakeholder' approach.[36] During this era, the groundwork for dialogue between the US and China was laid to promote "conciliatory multilateralism" (Doshi, 2021: 108).

According to Zoellick, being a responsible stakeholder means embracing the rules-based international system and shouldering responsibilities. Two key moments tested the Chinese leadership's commitment to multilateralism: the Asian financial crisis of 1997 and the global financial crisis of 2008. These crises are important contextual factors for understanding China's approach to governance and the reorientation of its strategy from international to regional. More specifically, there are two events from these crises worth mentioning here. The first is the Chinese leadership's decision to hold on to the renminbi-dollar exchange rate when the Asian financial crisis threatened monetary stability in the region. This decision provided some respite and helped the countries most affected by the crisis recover economically. It was an act of calculated opportunism that can be juxtaposed with Japan's move to allow the yen to depreciate against the dollar.[37] ASEAN leaders regarded China's decision "as an important gesture in support of a hastened regional recovery" (ASEAN+1, 1999). The US also "welcomed China's commitment to maintaining the stability of the exchange rate of the renminbi" (White House Office of the Press Secretary, 1998).

The second important event happened during the global financial crisis in 2008; this episode opened the door to almost a decade of engagement and lessened the tensions between the US and China.[38] The hasted summoning of the G20 leaders in Washington in November 2008 proved to be a quick and effective way for the Chinese leadership to get involved in a forum that came to play a critical role in backstopping the crisis. When the US called on the major economies to participate in a coordinated large-scale fiscal stimulus package in the run-up to the 2009 G20 Summit in Washington, China answered promptly with a 4 trillion renminbi (about US$580 billion) stimulus plan (He, 2014: 3). At the 2009 London Summit, it joined the other G20 members in a US$1.1 trillion stimulus plan led by the IMF and committed a further US$50 billion to the IMF's non-conditional liquidity facility. Robert Zoellick, among others, praised China for these actions. These measures, however, aligned with China's national interests (He, 2014: 3), kept financial instability at bay, and eased the pressure on domestic demand. They also gave more weight to the Chinese leadership's efforts to increase the voting shares of the developing countries at the IMF and World Bank. The renminbi's inclusion in the SDR basket gave China the recognition within the international financial architecture it had been seeking.[39]

36 In 2005 the US Deputy Secretary of State Robert Zoellick, who subsequently became the President of the World Bank, advocated for China assume the role of a 'responsible stakeholder' in an "open, rules-based international economic system" (2005).

37 In a report commissioned by China's Ministry of Foreign Affairs Zhang Yuling, a scholar at the Chinese Academy of Social Sciences, wrote that "this idea [conciliatory multilateralism] has led directly to actions such as not devaluing the Renminbi during the 1997 Asian Financial Crisis" (quoted in Doshi, 2021: 108).

38 Just a few months before the crisis, the US administration had put pressure on the IMF to label China a currency manipulator in the forthcoming Article IV. The 2007 Article IV Consultations were not published, and there were no Article IV consultations until 2010 (Blustein, 2012).

39 SDRs are a supplementary reserve asset used internally by the IMF. They do not function as a currency, but can be exchanged for freely usable currencies. Their value is determined by a weighted basket of the world's most important international currencies, the composition of which is reviewed every five years. The other currencies in the basket are the dollar, the euro, the yen and sterling.

The diplomatic context was critical in all of this; the Obama administration, which was committed to multilateral engagement, provided the background for China to feel included and even pushed for US companies to do business with China (Martina and Spetalnick, 2014). However, the election of Donald Trump rekindled mistrust between the US and China. The goodwill built up in the time between the two crises dissipated rapidly. The election of Joe Biden and the change of US administration has not fundamentally changed the US approach to China.

Not surprisingly, public perception in China is that there is little difference between Trump and Biden. Assessing Biden's first 100 days in office, the Chinese state tabloid Global Times ran a piece stating that "some have the reason to feel greatly disappointed about [Biden] while others think he is barely satisfactory. [The] Biden administration's China strategic definition is apparently a continuation of the Trump administration's perception of China" (Global Times, 2021). This attitude is reflected widely throughout the Chinese media; more recently, China Daily wrote that "the Biden administration has continued and sometimes escalated the Donald Trump administration's hostile and destructive policies against China, whether on trade, investment, technology, people-to-people exchanges or global issues" (Chen, 2021).

Against this background, and given the changes that have occurred since 2016 and the fraught diplomatic context that has emerged, it is not clear whether China's early projects in global governance, especially the establishment of AIIB, would have been possible to initiate today (Humphrey and Chen, 2021). For example, would member states still be willing to appoint senior and high-level Chinese representatives to take up positions at AIIB? Looking forward, how will this more hostile international environment impact the AIIB and NDB's future success?

3.2 BUILDING NEW INSTITUTIONS OR REFORMING OLD ONES?

Either by design or a fortunate series of events, the creation of the two new MDBs happened at the peak of the 'golden age' of China's multilateral engagement. This also happened to coincide with the highest ever accumulation of foreign exchange reserves, approximately US$4.1 trillion by mid-2014 (Subacchi: 2016), and strong capital inflows in China's domestic market. Against this background, for many countries joining the new regional bank was politically uncontroversial and made economic sense, especially for those eager to deepen their commercial links with China's huge market. In 2015, for instance, Europe was still grappling with its sovereign debt crisis. At that time, the US appeared to be on the wrong side of history, nostalgic for a world order that needed deep reforms to accommodate the developing countries.

Having spearheaded the creation of several economic and financial initiatives, some bilateral and others multilateral, China has demonstrated that it can be a "responsible stakeholder" in a system created and led by the US and its western allies. Moreover, China has showed that it could build and lead multilateral institutions and provide public financial goods – development finance – within the framework of multilateral institutions. Thus, it has become a key part of the international financial architecture both as a participant and institution-builder.

The interactions between these two dimensions have changed the dynamics of the institutional architecture in a way that is similar to how China's economic development and gradual opening have changed the dynamics of the world economy. The growth of the Chinese economy – it overtook Japan in 2010 and is now head-to-head with the US – has made obvious the need to reform the governance of these institutions in ways that grant China and the other emerging economies representation proportionate to their weight in the world economy. At the same time, it has made evident the fundamental zero-sum game implicit in the reform of the Bretton Woods institutions. Simulations of the IMF 15th Review Quota Share, based on the assumption of gradual changes, indicate that the advanced economies could see their overall quota drop from the current 57.6 to 55.00–50.2 per cent. The US would need to reduce its quota from 17.4 per cent to somewhere between 16.4 and 14.5 per cent; the other G7 countries would also need to reduce their share. This would allow China to increase its quota from 6.4 per cent to 8.4–12.6 per cent and would make it the second-largest shareholder (IMF, 2021b). But only a significant revision would remove the US' veto power and so allow the world's two largest economies to be at a similar level within the IMF. Proposals have been on the table for the reform of the IMF quotas (Truman, 2014); all, however, imply a zero-sum game.

Governance reform is politically thorny, thus, the evolution of the financial architecture is unlikely to register any significant progress within the existing institutions any time soon. During the golden period of multilateral engagement, China was eager to grow within the existing Bretton Woods institutions and become a bigger shareholder without overtaking the US. Nowadays, China's proven capacity in institution-building allows for a more varied multilateral institutional framework with a regional focus and distributed leadership.

The key question is not whether China would find it difficult to build new institutions in the present global political climate, a meaningless question without the counterfactuals. Rather, it is more appropriate to ask whether China, having proved itself capable of building well-governed institutions, will continue to engage with the rest of the world and within the existing institutional framework. Or, will institution-building be a way for China to pursue "offensive economic statecraft" (Doshi, 2021: 161)?

In the next section, I address development finance as the area where China has been focusing its external financial action. Having explored China's multilateral approach to development finance, I now consider China's bilateral approach, which has proved to be much more controversial.

3.3 CHINA'S BILATERAL FOOTPRINT IN DEVELOPMENT FINANCE

As discussed in Section 2, China's active involvement in the establishment of the new MDBs was relatively smooth. The new institutions, despite some initial skirmishes, have generated little to no controversy to date. This suggests that the new MDBs are not where frictions will arise going forward. However, this is not the case for China's bilateral initiatives. Here, China's footprint is especially significant; domestic institutions are engaged in bilateral development lending with many countries, especially low-income ones. China as a whole (i.e., the country, its subsidiaries, and public banks) has lent over US$1.5 trillion in loans and trade credits to more than 150 countries, making it the largest official creditor worldwide (Horn et al., 2020).

The policy banks such as the CDB, Exim Bank, and Agricultural Development Bank of China are at the front of China's bilateral lending. These are complemented by other organisations, including state-owned commercial banks, state-owned enterprises, and government agencies such as the Ministry of Commerce (Morris et al., 2020: 18). The policy banks have evolved over the years to become the leaders of China's external action. They now account for approximately 70 per cent of China's official financing, making them the world's biggest lenders in development finance. They are globally competitive financial institutions that offer preferential or market-based long-term development finance for infrastructure projects in developing countries and aim to generate economic benefits for the recipients as well as making a return for themselves. Unlike many of their competitors, they enjoy strong political support and receive large capital injections from the PBoC. As a result, China's policy banks have more resources to put towards projects compared to other lenders.

At present, the CDB has total assets (domestic and international) that exceed the combined total assets of the World Bank, the European Investment Bank, and all four major regional development banks (Morris, 2018). It owns the only Development Financing license in China and offers overseas financing largely on commercial terms. In 2007, CDB established the China-Africa Development Fund, the first Chinese equity investment fund dedicated to supporting Chinese investment in Africa. By the end of 2018, the total amount of investment made or planned by this Fund was almost US$5 billion (CDB and UNDP, 2019: 32–33).

In contrast, Exim Bank is focused on foreign aid, investment, and international economic cooperation – it is China's designated policy bank for administering Official Development Assistance (ODA). Its services include government concessional loans and preferential export buyer's credit to foreign governments with a sovereign guarantee. It provides financing for large BRI infrastructure projects, which otherwise might struggle to raise private capital given the risk involved. China's Ministry of Finance subsidises concessional Exim Bank loans. However, preferential export buyer's credits are not considered official assistance and therefore are not subsidised. Exim Bank offers commercial-rate export buyer's and seller's credit, often in partnership with foreign banks such as Russia's Vnesheconombank (VEB), Netherland's ING, and South Africa's TDB Bank, as well as non-concessional loans, credit lines, overseas investment loans, and mixed-finance packages. It also manages the China-Africa Industrial Cooperation Fund, the other Chinese investment fund for Africa.

Policy banks refinance themselves through national and international bond markets, including green bonds issued by the CDB, Exim Bank, and the Industrial and Commercial Bank of China (ICBC), all of which have issued BRI-related green bonds in 2017. Some proceeds go to overseas projects; one of the CDB's green bond-sponsored projects is a wind project in Pakistan (CDB and UNDP, 2019: 47). Grants are derived directly from the government budget and used for purposes of development and humanitarian relief. They function as an essential part of China's foreign assistance, mainly in the form of direct fiscal support, in-kind aid, and services such as scholarships or medical assistance. Grants exclude military-related funds and are mainly used to build hospitals, schools, and low-cost housing or to support water supply or social welfare projects, for example.

Investment funds, that have long been part of the international financing landscape, are a common platform for collaboration between Chinese and foreign financial entities. Currently, most private investment funds are open-ended, with diversified financial services, high yields, large volumes, and mature legal supervision systems. Since the inception of the BRI, investment funds have been an important channel for BRI projects, and their role is expected to increase (CDB and UNDP, 2019: 35). For instance, the Silk Road Fund (SRF) is a medium- and long-term development investment fund that mainly provides financing for economic and trade cooperation and multilateral interconnection. SRF was established in December 2014 as a financing organisation tailored to BRI projects, with an initial capital of US$40 billion. In May 2017, the Chinese government provided an additional RMB100 billion to SRF. It is jointly funded by the CDB, Exim Bank, China Investment Corporation, and foreign exchange reserves through the Wutongshu Investment Platform Co., Ltd.

These funds constitute a small share of China's total development finance resources. Others are, for example, the Chinese South-South Cooperation Assistance Fund (SSCAF). This was set up by the Chinese government in 2015 to provide grants for BRI projects and facilitate support for humanitarian aid, agriculture and food security, poverty alleviation, education and training, industrialisation, climate actions and public health in developing countries. With an initial capital of US$2 billion, SSCAF was granted an additional US$1 billion in the 2017 Belt and Road Forum for International Cooperation to help promote the 2030 Agenda in developing countries (CDB and UNDP, 2019: 218–9).

3.4 THE THORNY GOVERNANCE OF CHINA'S BILATERAL LENDING

The amount of debt owed to Chinese lenders, mainly the policy banks, is vastly underreported. Hence how much China has lend to development is anyone's guess. This poses a problem for multilateral organisations and policy cooperation in relation to debt relief and debt restructuring. Bilateral debt is not only relevant to the parties involved but for the rest of the world as well, especially when developing countries are grappling with debt burdens.

Consider the case of Africa. Over the last two decades, China has lent more than US$150 billion to African countries directly and through state-owned entities. This has allowed China to establish its presence on the commodities-rich, fast-growing African continent. For example, Chinese institutions have funded large infrastructure projects in Ethiopia, Africa's second-most populous nation, including factories and a railway from Addis Ababa to Djibouti. China is now Ethiopia's biggest bilateral lender, with approximately US$13.7 billion outstanding.[40] In the summer of 2021, the Paris Club called for a creditor committee to be formed to restructure Ethiopia's debt, increasing pressure on China to engage under the G20 framework to grant debt relief to developing countries. In 2020, the Ethiopian government requested that a portion of its debt be restructured under the G20's Common Framework; in an unprecedented move, China agreed to be involved in multilateral debt negotiations. Along with Ethiopia, Zambia and Chad have sought debt relief under the Common Framework (Gebre and Tadesse, 2021).

The creditor committee met for the first time in September 2021 under the joint chair of France and China. In the meantime, the Ethiopian government asked the IMF to grant access to the Extended Credit Facility and concessional resources under a poverty reduction and growth programme (Gebre and Tadesse, 2021). The IMF, however, said it was too soon to agree on a new programme with Ethiopia. The IMF had agreed to give the country US$2.9 billion in two credit arrangements in late 2019.

Ethiopia is an illustrative case and is the tip of the iceberg of a complex debt situation. Many developing countries have borrowed from various Chinese entities using instruments ranging from development finance loans to export buyers' credit. This is not only a matter for China but also for the international financial institutions, as they are called upon to intervene when a country can no longer face its debt obligations. Similarly, debt restructuring and debt resolution need a coordinated multilateral approach. The Common Framework is a step in the right direction, but it will take time – China's approach, in this context, can best be described as gradual.

40 This refers to the overall amount that Ethiopia borrowed from Chinese lenders from 2000 to 2019 (China Africa Research Initiative and Boston University Global Development Policy Center, 2021).

Transparency and disclosure are the primary issues of contention. China maintains that sensitive information should be available only to the lender and the borrower. However, the lack of transparency related to China's debt negatively impacts international financial practices and governance. First of all, in the absence of full disclosure, it is impossible to assess the effective external indebtedness of a borrower and this hinders correct debt sustainability analyses. For instance, in August 2021, almost a year after Zambia defaulted on its debt, it became evident that Zambia owed China US$6.6 billion, almost double the US$3.4 billion that had previously been declared (Brautigam and Wang, 2021). This significant discrepancy was partly due to the composite group of at least 18 Chinese lenders, which makes reaching an agreement very difficult.

Second, the lack of transparency increases the risk of asset mispricing, which may be critical when the private sector is involved in debt restructuring and debt resolution (i.e. through sovereign bonds issuances). Third, it makes it difficult to put effective strategies in place to solve debt crises, given that a correct flow of information regarding the actual financial indebtedness of the distressed debtor is essential to face a crisis in an orderly and timely fashion (Horn et al., 2019: 5). Underreporting is also problematic because China often lends at high interest rates with short maturities and, in general, secures its lending through commodity export proceeds. This approach diverges from the OECD countries and the MDBs, which grant concessional loans with low interest rates and relatively long maturities (Horn et al., 2019: 7). The outcome is that, because China ensures a higher level of seniority for its financings (thanks to the collateralisation clauses), the fundamental elements used to evaluate repayment possibilities and borrower debt burden (i.e. interest rates and maturity) are not an option for other creditors.

Limited transparency and disclosure allow loan agreements where market standard terms are combined with non-standard terms to enhance and expand China's leverage over the borrower. Even when standard commercial terms are included, these are drafted in a way to maximise China's control and influence over the borrower's financial and economic sector (for instance, many Chinese agreements include clauses enabling the lender to terminate the contract and request immediate repayment in case of substantial law or policy changes in the borrower or lender country) (Gelpern et al., 2021: 5–8). While it is standard practice for the lender to include provisions to keep its credit risk under control, what is uncommon are additional undertakings for the borrower, such as cumbersome confidentiality provisions, the exclusion of Chinese lenders from the Paris Club specifically, and their absence in collective restructuring programmes more generally.

The ambiguity around the definition of public and private entities also muddles governance. In the case of the DSSI and the Common Framework, for example, it raises the question of which institutions should be involved. In particular, it is unclear whether China's policy banks should be classified as public or private. The Chinese leadership maintains that they are private entities and should therefore not be involved in the DSSI. Unlike the DSSI, the Common Framework relies on the Paris Club's approach on the comparability of treatment to ensure that all private and hybrid creditors participate (Chorzempa and Mazarei, 2021: 9). As such, it is mandatory for private creditors to participate on terms comparable to those granted to official bilateral creditors. The Common Framework, however, has not provided the details on how it intends to guarantee comparable treatment for private and official creditors.

3.5 CHINA'S DILEMMAS …

China's entangled bilateral debt outlook epitomises the conflict between the competing demands arising from domestic institutions and pressures coming from abroad. For instance, the interactions with and within the international financial institutions require a degree of transparency that China is not quite prepared to embrace. The decision to join the Common Framework shows willingness to collaborate, but only within parameters that the Chinese leadership is comfortable with. Thus, the high standards of governance that are implemented within AIIB seem at odds with China's ambiguous position vis-à-vis the same standards when it comes to bilateral financial relationships. This begs the question: is the AIIB representative of China's approach to the international financial architecture?

China's goal for the international organisations to be reformed so that it can engage more deeply emerges unambiguously from the official documents and speeches. On many occasions, President Xi has spelt out this aim; China is committed to being an active and responsible partner within the multilateral institutional framework. Addressing the G20 leaders gathered in Hangzhou in 2016, he stressed that "[China has] been actively involved in building a fairer and more equitable international order. China's interaction with the outside world has deepened. And indeed, [China has] friends all over the world" (Xi, 2016a). At the Davos Forum in 2021, he defined multilateralism as "having international affairs addressed through consultation and the future of the world decided by everyone working together" (Xi, 2021).

"A fairer and more equitable order" refers to a system that is not dominated by the US and the main European countries, wherein all developing countries have space and voice – the same concept was expressed by governor Zhou with regard to the international monetary system that should not be dominated by the dollar. China's domestic media has pushed the idea that the UN should manage a global governance system "free of Western contamination and social contradictions" that covers economics, security, politics, culture, and society (Neill, 2021). This view was recently articulated by Yang Jiechi, director of the Office of the Central Commission for Foreign Affairs: "What China and the international community follow or uphold is the United Nations-centered international system and the international order underpinned by international law, not what is advocated by a small number of countries of the so-called rules-based international order" (quoted in Scott, 2021). China opposes what its leadership perceives as the external interference in domestic affairs that a rules-based system, with its focus on transparency and disclosure, requires. Moreover, its commitment to non-interference is attractive to states disinclined to have their domestic action scrutinised.

For some time, the international financial institutions and fora like the G20 have offered a good space for international dialogue and economic cooperation, and this is valuable to China. In 2016, President Xi invited his fellow G20 leaders to honour "[the] commitment of not adopting new protectionist measures, strengthen coordination and cooperation on investment policies and take credible steps to stimulate trade growth" (Xi, 2016b). A few months later, in January 2017 at the World Economic Forum in Davos, he reiterated the same commitment to global free trade and investment, stating that protectionism "is like locking oneself in a dark room. […] No one will emerge as a winner in a trade war" (2017).

The space offered by the international institutions and the G20 has become increasingly less comfortable for China. US Congress' hostility and little interest in multilateral institutions have shown the limits of the "responsible stakeholder" approach. Moreover, the US veto power in both the IMF and the World Bank mean that these institutions are not politically neutral, and the Chinese leadership is concerned that they may become hostage to the anti-China sentiment in the US.

Take the recent clamour around the World Bank's *Doing Business* report; this was a long-standing staple of the World Bank's research, but it was discontinued after accusations of data manipulation. Allegedly, in 2017, the World Bank's leadership, including then-CEO of the World Bank and current managing director of the IMF Kristalina Georgieva, pressured the *Doing Business* team to boost China's rating. The aim was to appease the Chinese authorities. The alleged manipulation took China from 85th to 78th place. Nevertheless, after implementing a tough agenda of reforms to its business climate (World Bank, 2019), China now ranks in 31st place, far higher than when Georgieva was at the bank. The bottom line for China is that there is no way for them to win; they are still criticised even when they make changes in line with the standards pushed by the international financial institutions.

As for the G20, China has gone from full support to benign indifference and occasional disruptions in just five years. It was an active member of the G20 throughout the group's first decade, despite it being a relatively small, unstructured multilateral gathering. Bu unlike the G7 and the G8 before it, the number of interlocutors around the G20 table guaranteed that China would not be isolated and driven towards decisions that may not be the best for the country. In 2009, President Hu Jintao cut short his trip to Italy to attend the Italian-hosted G8 summit in L'Aquila, allegedly to deal with unrest in western China, when it became clear that China was to be a 'guest' rather than an equal at the table (Subacchi, 2020: 196).

Presently, the G20 seems to have lost its attractiveness to the Chinese leadership, who appear no longer comfortable with significant engagement in the group. In the run-up to the 2021 summit, another Italian-hosted event, held in-person in Rome, Chinese diplomats informed the G20 sherpas that President Xi would not be attending (Albanese et al., 2021). This indicated that he would rather miss a valuable opportunity to meet with other world leaders, especially President Biden, than risk being cornered on issues ranging from human rights in Xinjiang to the situation in Hong Kong. Similar events unfolded at the COP26 held in Glasgow a few weeks later. As China's position is central to many of the topics on the summit's agenda, Xi's absence makes it difficult for any agreements to be reached.

3.6 … AND OPTIONS

Against this background, what are China's options? The Chinese leadership has articulated three points that indicate potential future action in the realm of international economic activity. First, it has defended international trade and globalisation against the US retreat. Second, it has clarified that, in a world where the US is no longer the largest economy, action must be regional rather than global. Third, it has created regional-based institutions and initiatives, especially in development finance, both bilaterally and multilaterally, to establish a firm presence in Asia and offset the US influence.

There are risks that arise from China's response. The first is the fragmentation of the international financial architecture and reduced support for multilateralism, which has the potential to constrain the ability of the international institutions to provide international public goods. The second risk is that the stakeholders in the international financial architecture, especially those from developing countries, may look elsewhere for the delivery of the international public goods, turning away from the environmental sustainability and climate action inherent in the existing international financial institutions. The third risk is that China may build an alternative institutional framework that explicitly includes small and medium-size developing countries as partners in governance; this will fragment the international financial architecture. However, because of China's limited experience in institution-building, this is a low-probability scenario.

China still values being a part of the international financial architecture, but some areas of this architecture now appear to be disposable, at least in principle. Development finance is a sphere wherein China has considerably increased its international and regional footprint and institutional engagement. Currently, the World Bank is a partner to the AIIB projects and so helps with capacity building. This partnership is ultimately an endorsement in Chinese institution-building. However, the case for the IMF is different. The constraints on the domestic financial and monetary system, including the fact that the renminbi is not fully internationalised (i.e. internationally exchangeable and with good liquidity) and the existing controls on the capital account, make the international financial safety net provided by the IMF necessary and non-disposable. Should China decide to force the issue and leave the Bretton Woods institutions out of frustration for the governance deficit and lack of progress, it would be easier to leave the World Bank than the IMF. The recent episode surrounding the *Doing Business* report has deepened the existing gap between China and the World Bank and makes such an outcome less implausible.

This is, however, the worst-case option that is not in the interest of China, nor is it in line with its approach to international commitments. Throughout the years, China has maintained some ambiguity about its stance toward the international economic system rather than being direct or confrontational. The following two examples illustrate this point. The first relates to China's development status. Chinese policymakers often refer to the fact that theirs is still a "poor" country and use this as an argument to curtail their participation in multilateral initiatives. At the same time, the Chinese authorities willingly publicise the fact that their nation is no longer poor, having lifted 93 million people out of poverty since 2013 (Reuters, 2020). This ambiguity is particularly relevant in the WTO, where China has refused to give up the "special and differential treatment" granted by the developing country status (Lee, 2019), and has put off joining the WTO's Government Procurement Arrangement, which is mostly constitutes a group of rich countries (Dollar, 2020).

The second example is China's ambiguous approach to multilateral institutions. China's frustration about the reform of the IMF was discussed in Section 1.6. President Xi has made it clear that the international economic architecture is "inadequate in terms of representation and inclusiveness" (Xi, 2017). China's open support for the reform of the IMF to make the governance more inclusive is not matched, however, by a similar commitment to reform of the WTO. Director-general Ngozi Okonjo-Iweala has commented on how the organisation gets "a lot of resistance" from China when it comes to global trade reforms but also stressed that this is likely because China "feels it is being targeted" (quoted in Blenkinsop, 2021).

3.7 ENGAGING WITH CHINA: A COMMONALITY OF INTERESTS

Given China's visible disengagement and benign indifference to existing financial institutions, what is the most effective way to deal with China? According to Secretary of State Antony Blinken, China poses a challenge to the rules-based system. The US' purpose is to uphold this rules-based order, "not to contain China, to hold it back, to keep it down" (quoted in O'Donnell, 2021). In May 2021, Joe Biden and the South Korean President Moon Jae-in declared their opposition to all activities that undermine, destabilise, or threaten the rules-based international order; they also committed to maintaining an inclusive, free, and open Indo-Pacific region (Neill, 2021). Around the same time as Biden's and Moon's comment, the G7 struck a conciliatory note and demanded that China "participate constructively in the rules-based international system" (2021).

This suggests that an alternative approach to that embraced by the US would be possible. As I have argued above, China now has options that were unavailable twenty years ago. Accordingly, China likely expects it can do and get away with more than before (Patten, 2021). It is therefore critical that relevant actors continue to provide the space for dialogue and cooperation within the multilateral institutions. There is a role here for the advanced economies and like-minded countries to look for practical ways to deal with China. The G7, under the leadership of Germany in 2022, could effectively play this role and devise an engagement strategy.

However – and this is the elephant in the room – China is not a market economy nor a liberal democracy;[41] its system, objectives, and incentives are not aligned with those of the G7. Hence, the challenge in dealing with China is to work out how to get the best possible outcome when engaging and collaborating with a partner whose incentives are not aligned with those of the post-war international liberal order. To achieve this, Germany and the other European members of the G7 should focus on finding areas of common interest where the Chinese leadership feels comfortable. The focus should be on finding "common ground while maintaining differences" (Rudyak, 2021); thus mitigating the risk of misunderstanding and tensions. Focusing, instead, on values and "the vision of a community with a shared future for mankind" would be a moving target because the G7 countries and China would find it difficult to identify a common ground based on "shared values" (Xi, 2021).

Drawing on the "responsible stakeholder" approach and its positive outcomes, such as the G20 London Summit, the inclusion of the renminbi in the SDR basket and the Paris Agreement on climate, the focus should be on finding opportunities for collaboration and thus delivering positive outcomes with practical implications. A G7 initiative led by the European members will have the additional benefit of showing that the liberal order is less US-centric and US-led than it used to be. A deep engagement to promote common interests at the global level and reinforce cooperation in multilateral fora to "establish a rules-based system of global governance" (European Union External Action Service, 2020) is at the heart of the EU's China strategy (European Commission, 2019). Thus, Europe, which is China's largest trade partner and has a market of about 450 million people, could act as an honest broker between the US and China.[42]

There are already many instances where collaboration with China is the norm rather than the exception. Almost two decades of positive engagement have generated a way of working inside the multilateral organisations and the G20. An example of this is the work on the global spillovers, within the G20 Finance track and led by the IMF, that assesses the adverse impact of policies in systemically-important economies such as the US and China on smaller advanced economies and developing countries. It took a while to bring all the countries on board, especially because of China's strong opposition (this analysis requires some degree of disclosure of domestic economic data). However, there is now a common interest in ensuring that there is a robust analytical instrument to detect vulnerabilities to domestic and global economic and financial stability.

Building on the existing cooperation in economic and financial affairs and the common goal of achieving "strong, sustainable, balanced and inclusive growth" (IMF, 2020), the best way to engage with China is to focus on concrete problems where common interests make collaboration possible. Climate finance, for instance, is an area where interests tend to converge, and the Bank for International Settlements' Green Swan Conference, which brings together the world's top central bankers, policymakers, academics, and business leaders, provides a good template for collaboration. The 2021 conference saw some impressive overlaps between different countries' approaches. PBoC Governor Yi Gang, for example, presented a benchmark estimate of what the bank considers to be an environmentally sustainable asset, which converged by about 80 per cent with a separate taxonomy produced by the EU (John, 2021).

Debt relief and debt sustainability are two areas where China has a large footprint and is willing to engage. I have already discussed China's membership in the Common Framework, which, together with the DSSI, is part of the two-pronged approach to helping highly indebted countries. To date, the initiative has delivered more than US$5 billion in relief for more than 40 eligible countries (World Bank, 2021b). Similarly, the approval of the issuance of US$456 billion of SDRs indicates a shared interest in helping poor countries manage their debt. In a letter to her G20 colleagues, US Treasury Secretary Janet Yellen wrote that no single country can "declare victory" over the "dual health and economic crises" caused by the pandemic. "This" she added, "is a moment made for action and for multilateralism" (Yellen, 2021). At the Forum of China-Africa Cooperation in November 2021, President Xi offered to relieve poor African countries from "debt incurred in the form of interest-free Chinese government loans due by the end of 2021" (Xi, 2021). He also pledged US$10 billion from China's share of the new allocation of SDRs.

The governance of debt is an urgent matter. There are too many "gaping holes" that often leave poor countries with limited options. These have opened the door to private creditors and mixed entities, like China's policy banks, and has created significant asymmetries among different types of debt and different types of creditors. The US Treasury now recognises this urgency and the need to make multilateral financial tools available to countries in need. Bolstering debt sustainability and brokering fair debt deals between bilateral creditors are the primary areas where international action can be coordinated, consensus created, and China can be engaged.

41 The Chinese government system is a "democratic dictatorship", as defined in the organs of the Chinese government (Rudyak, 2021).

42 A common strategy towards China implies that the EU member states look out for common interests rather than their own.

The European members of the G7 should also reiterate their support for the AIIB and their willingness to appoint senior and high-level people to take up positions at the bank. They should continue to strengthen the partnerships between the European institutions and AIIB through co-financing projects. The Trans Anatolian Natural Gas Pipeline which was approved by the AIIB in 2016, for example, was co-financed with the World Bank, the European Investment Bank (EIB) and the EBRD[43]. The European G7 members should further support the AIIB by exploring opportunities for collaboration around Global Gateway, the new EU initiative for €300 billion to be invested in digital and physical infrastructure around the world (European Commission, 2021).

Continued European engagement with the AIIB would make clear that sound institution-building is not a matter of external circumstances, such as, for example, a favourable diplomatic context. Instead, institution-building is about promoting good governance and standards. In doing so, the European members of the G7 would acknowledge and welcome China's initiatives in expanding the multilateral institutional framework and providing economic and financial public goods within such a framework, rather than assuming that China's institution-building aims to "rewrite regional norms on Asia's economy (and security)" and to "reduce the US role" (Doshi, 2021: 182). Therefore, further collaboration between the AIIB, NDB, and the 'old' MDBs should be encouraged and supported. As Finance Minister Lou Jiwei made clear at the inauguration of the AIIB and NDB, for China, the new banks complement the existing MDBs. Moreover, they are also an opportunity to improve upon the existing governance arrangements, standards and business models (Wildau, 2015).

43 The pipeline transports natural gas from Azerbaijan into European and Turkish markets, helping to reduce Europe's dependence on gas from Russia (Reuters, 2019). The pipeline helped to ease gas shortages in Turkey when supplies from Iran were halted in January 2022, (Shiryaevskaya, 2022).

4

THE WAY FORWARD: AN EFFECTIVE GLOBAL FINANCIAL ARCHITECTURE

China is part of the international financial architecture in two significant dimensions: as a member of the international financial institutions, where it can counterbalance the US, and as an institution-builder, where it can provide leadership. The interaction of these two dimensions has significantly shifted the international financial architecture's dynamics.

To fit China in this evolving system and achieve international balance in the global processes of economic rule-setting, the existing institutions need to be reformed. At the same time, new institutions are needed to accommodate China's quest for better distributed governance. Accommodating old and new institutions within the same system should result in better, more balanced, and more inclusive provision of global public goods, i.e., development finance and global financial resilience. In a report published in 2018, the G20 Eminent Persons Group on Global Financial Governance indicated that old and new institutions should strengthen governance capacity, human capital, and diversification of risks in development finance, and help improve liquidity in domestic capital markets, contain market volatility and avoid major spillovers in order to secure global financial resilience (G20 Eminent Persons Group, 2018).

So far, both the AIIB and NDB have shown that institutions with a different distribution of leadership can coexist, especially at the regional level; they can be operationally effective and run on robust governance and standards. As this report argues, the new MDBs are not where frictions will arise going forward. By contrast, areas where China has established a significant bilateral footprint, such as bilateral lending, are more likely to be sticking points (Table 5). Regarding international debt governance, for instance, the key issue is to encourage China to follow the best practices from MDBs, such as sustainability, accountability, and transparency of lending initiatives. This process, however, needs to be gradual and based on common interests. For instance, concerns about the risk of default of its debtors prompted China's participation in the Common Framework and its involvement in multilateral debt negotiations. These are exemplary positive steps.

The bottom line is that the world cannot function without China. And yet, China is not a market economy nor a liberal democracy, and its objectives and incentives do not align with those of the world's largest and most advanced economies of the G7. As the European Commission put it in its EU-China Strategic Outlook (European Commission, 2019), China is a systemic rival and an economic competitor, but also a partner with shared interests and objectives, and potential for negotiation and collaboration.

The challenge, therefore, for the G7 as well as for like-minded countries in the G20 such as Australia, is to work out how to get the best possible outcome while dealing with

Table 5
China in the international financial architecture – summary of actions and implications

Action	Context	Impact
Membership of institutions	International financial architecture	No/limited disruption
Building institutions	Adding to the international financial architecture	Limited/medium disruption
Bilateral initiatives	Outside the international financial architecture	Spillovers and disruption

China. In other words, what can be done to encourage China to be a productive and engaged partner, and so to create the conditions wherein China can coexist harmoniously with the rest of the world?

It is critical to identify low hanging fruit and work in areas where policy-makers who have been managing the international financial architecture have a long-standing history of mutually beneficial collaboration. Common interests should underpin the international dialogue and policy cooperation. In this report, I have identified shared interests in areas such as development finance and infrastructure investment, debt sustainability, cooperation on domestic macroeconomic frameworks, economic growth and the challenge of environmental sustainability, and the desire for a strong and responsive financial safety net underpinned by a reformed IMF. More trade arrangements, especially at the regional level, and an encouragement for better collaboration between the WTO and regional agreements would also be helpful (EABER-CCIEE, 2016: 236). Finally, action should be directed towards areas where there is some genuine learning from mutual engagement – for example, economic development.

China is undergoing a complex and gradual economic and social transition that will take another two or three decades to be completed. To continue to fit China in the world economy, we need an institutional framework that is inclusive, rules-based, and organised around fair and effective governance. Countries should work collaboratively on global economic issues and this mutual collaboration should be based on common interests. The alternative is that the world's largest economies and China head off down two separate paths with no way to converge.

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ABBREVIATIONS

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations (Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam)
ASEAN+3	Association of Southeast Asian Nations Plus Three (ASEAN countries plus China, Japan and Republic of Korea)
ASEAN+6	Association of Southeast Asian Nations Plus Six (ASEAN countries plus Australia, China, India, Japan, New Zealand, and South Korea)
BRI	Belt and Road Initiative
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
CDB	China Development Bank
CMI	Chiang Mai Initiative
CMIM	Chiang Mai Initiative Multilateralization
CRA	Contingent Reserve Arrangement
DSSI	Debt Service Suspension Initiative
EBRD	European Bank for Reconstruction and Development
EFSF	European Financial Stability Facility
ESF	Environmental and Social Framework
ESM	European Stability Mechanism
ESP	Environmental and Social Policies
ESS	Environmental and Social Standards
Exim Bank	Export-Import Bank of China
GATT	General Agreement on Trade and Tariffs
GDP	gross domestic product
G7	Group of Seven (Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States)
G8	Group of Eight (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States)
G20	Group of Twenty (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union)
IBRD	International Bank for Reconstruction and Development
ICBC	Industrial and Commercial Bank of China
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
MDB	multilateral development bank
MIGA	Multilateral Investment Guarantee Agency
MoU	Memorandum of understanding
NDB	New Development Bank
NDC	Nationally Determined Contribution
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PBoC	People's Bank of China
RMB	renminbi
SDG	Sustainable Development Goal
SDR	Special Drawing Right
SEforALL	Sustainable Energy for All
SRF	Silk Road Fund
SSCAF	South-South Cooperation Assistance Fund
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organisation

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CHINA AND THE GLOBAL FINANCIAL ARCHITECTURE

Keeping Two Tracks on One Path

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The world cannot function without China. China is a critical component of the global financial architecture as both a member of the international institutions and as an institution-builder.

→

China is not adequately accommodated for in the current global order. Unless the international institutions are reformed, China could decide to go its own way, threatening the integrity of the global financial safety net.

→

China is not a market economy nor a liberal democracy. Lacking shared values, the challenge for the G7 is to find areas of common interest where it can work with China, encouraging it to be a productive and engaged partner in the global order.

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