

China Triggers a Race to Finance Infrastructure in Asia*

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Abstract

The Asian financial architecture is at a turning point. For over 70 years, it has been dominated by the Bretton Woods institutions. Their slow pace of reform has frustrated China and other emerging economies, which have established their own financial institutions: the Asian Infrastructure Investment Bank and New Development Bank. China is also expanding its bilateral financing, through One Belt, One Road and its large policy banks. The region's architecture has evolved in four stages. In the 1950s and 1960s, the World Bank and IMF were the only multilateral financiers. The establishment of the Asian Development Bank in 1966 and ASEAN in 1967 marked the start of regionalization, which was later deepened by the 1997~1998 Asian Financial Crisis. The fourth stage is linked to China's financial emergence, triggering a funding race with political undertones. The World Bank, the ADB and Japan have responded by stepping up financing. This article reviews the impact of the funding race in terms of healthy competition that benefits borrowers and unhealthy competition with negative externalities. China has triggered an expansion and diversification of financing. The World Bank and the ADB are improving their efficiency, which benefits the borrowers. However, there are also initial indications that their focuses on due diligence has been shifted to moving money. There is a risk that blocs will converge around Western-led and China-led institutions. To address these risks, it is important that the new banks and China's policy banks should apply established lending standards and participate in

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international debt management. The established and new banks should coordinate closely at the global, regional and country levels.

Keywords: The Asian Development Bank, the Asian Infrastructure Investment Bank, China, International Financial Institutions

I. Introduction

The Asian financial architecture is at a turning point.

China is emerging as an increasingly active international financial player, and has triggered major changes in the global and regional financial architecture. For over 70 years the architecture has been dominated by the Bretton Woods institutions, the International Monetary Fund (IMF) and the World Bank. Decision-making in the institutions has been led by Western countries, which have been unable to agree on reforming their governance structures to reflect new economic and political realities. A relatively modest proposal to increase the voting rights of the emerging economies in the IMF was held up in the United States' Congress for over five years before being approved in December 2015. This has frustrated China and other emerging economies, which are now setting up their own financial institutions and programs.

On the multilateral front, China has led the establishment of the Asian Infrastructure Investment Bank (AIIB) and Brazil, Russia, India, China and South Africa (the BRICS countries) have established the New Development Bank (NDB), frequently referred to as the BRICS bank. Both are intended to offer an alternative to the World Bank and the Asian Development Bank (ADB), which are currently the Asia-Pacific region's main sources of multilateral development finance, and started lending in 2016.

On the bilateral front, China has built up its lending in Africa, Asia and Latin America through its policy banks, the China Development Bank (CDB) and China Export-Import Bank (China Exim), which now exceeds that of the multilateral development banks (MDBs).^① In late 2013, President Xi Jinping announced the establishment of One Belt, One Road (OBOR), a massive initiative to strengthen infrastructure on the land route from China through Central Asia and on the maritime routes from China through Southeast Asia to South Asian, African and European markets. To help finance the initiative, he also announced the establishment of the \$40 billion Silk Road Fund (SRF).

What are the implications of China's initiatives? Regional economic and financial cooperation was for many years closely linked to the US, Japan, and the Association of Southeast Asian Nations (ASEAN). China's initiatives have already triggered a spate of measures around the region. The World Bank and the ADB are expanding their lending, and Japan and South Korea have announced their own large-scale infrastructure initiatives.

註① The MDBs include the World Bank, the ADB and other regional development banks, and the recently established AIIB and NDB.

Countries in the region and beyond are positioning themselves in relation to the new financial programs, and the two emerging trade pacts, the Regional Comprehensive Economic Partnership (RCEP) and the Trans-Pacific Partnership (TPP).

In 2012, the ADB Institute estimated the need for infrastructure financing in Asia over the coming decade at \$8 trillion (Battacharyay 2012). More recently, the Mizuho Research Institute estimated that the region will need \$6.5 trillion in infrastructure investment in 2015-2020, mainly for roads and power (Suzuki 2016). The proliferation of financial initiatives will increase the volume and diversify the sources of funds available to meet the region's infrastructure needs, but also stands to accelerate the geopolitical competition for dominance in the region.

This article reviews the evolution of the region's financial architecture and the geopolitical backdrop to the emerging funding race. It also examines the impact that the funding race is likely to have in terms of "healthy" competition, which benefits borrowers, and "unhealthy" competition with negative externalities. In addition to increasing the volume of funds, the diversification of funding sources may encourage lenders to enhance their efficiency. However, there has also been widespread concern that it could lead to a "race to the bottom" and compromise standards of due diligence and the quality of investments. The article discusses both propositions in the light of available evidence. There is also a risk that the new financial and trade initiatives will heighten political tensions in the region and lead to the emergence of blocs. The conclusion proposes ways for the region to strengthen cooperation around the new financial architecture.

II. The Region's financial architecture has evolved in four stages

The Asia-Pacific financial architecture has evolved in four stages. The first was led by the Bretton Woods institutions, which were established in 1944 and started operations in 1945. The World Bank initially focused on post-World War II reconstruction, and started to lend to developing countries in the 1950s. In Asia, there was discontent with its modest lending, which concentrated on India and Pakistan, paying little attention to other regional countries.

The second stage marked the start of regionalization. It took place against a backdrop of post-war decolonization and a growing recognition that the Bretton Woods institutions alone were insufficient to meet regional needs. The first conference of Asian and African countries, most of which were newly independent, was held in 1955 in Bandung, Indonesia. This led to the establishment of the Non-aligned Movement in 1961, and paved the way for the

establishment of regional institutions.

The ADB was established in 1966 under Japan's leadership, with strong support from the US, to mobilize capital to finance the region's development (Watanabe 1977). The dominance of the two major shareholders is reflected in the initial agreement that the president would come from Japan and the headquarters would be located in the Philippines, a strategic ally and former US colony (White 1970).

The following year, Indonesia, Malaysia, the Philippines, Singapore and Thailand established the ASEAN, which has subsequently expanded to its current membership of ten. In 1977, the five original ASEAN countries took modest steps to strengthen financial cooperation and establish a safety net for economic stabilization. The ASEAN Swap Arrangement (ASA) initially encompassed currency swaps totalling a \$100 million, and was later expanded to a still very modest \$200 million. The South Asian countries followed in 1983 with the establishment of the South Asian Association for Regional Cooperation (SAARC).

The third stage was triggered by the Asian Financial Crisis in 1997-8, and significantly deepened regionalization. The crisis highlighted the inadequacy of the ASA, which was not called on. Instead, Indonesia, South Korea and Thailand received massive IMF-led bailouts. The harsh conditionality of the bailouts, and the limited role played by regional countries in defining the conditions, reinforced the region's dissatisfaction with the Bretton Woods system and conviction of the need for regional institutions (West 2014).

In September 1997, Japan proposed the establishment of an Asian Monetary Fund, which would have allowed the Asian countries a stronger role in defining the terms of liquidity support. However, the initiative was opposed by the US and the IMF, mainly on the grounds that it might allow borrowers to "shop" for bailout conditions, and by China, which did not want a regional initiative led by Japan. Consequently, the Asian countries had to explore alternative approaches. During the ADB annual meeting in Chiang Mai in May 2000, the ASEAN+3 (the ASEAN countries plus China, Japan and South Korea) finance ministers met to agree on a joint agenda and established the Chiang Mai Initiative (CMI).

The CMI expanded the ASA in size and membership, to include the "plus three" countries. When the global financial crisis struck in September 2008, however, countries requiring liquidity support did not use the CMI. Rather, South Korea and Singapore borrowed from the US Federal Reserve, and Indonesia from a consortium led by the World Bank. Based on this experience, in 2009 the CMI was strengthened under a pooling arrangement governed by a single agreement, and its name was amended to the CMI Multilateralization (CMIM). ASEAN countries provided 20 percent of the financing, and the "plus three" countries 80 percent. In 2011, the CMIM countries also established the ASEAN+3 Macroeconomic Research Office (AMRO), to strengthen their capacity for

economic and financial monitoring and the anticipation of future crises. In 2012, the CMIM was doubled in size to \$240 billion.

The CMIM swaps have so far not been called on, but they mark an important step towards deepening financial cooperation in the region. Nearly two decades after the financial crisis, the region's economies are much better prepared to weather economic crises. In addition to the CMIM and a network of bilateral swap agreements, most have built up significant foreign exchange reserves to protect themselves from financial volatility.

III. China's financial emergence has triggered the latest shift

The latest stage is closely linked to China's financial emergence, and its outward-looking and assertive foreign policy since Xi Jinping assumed the leadership of the Communist Party in November 2012. China has several broad objectives for expanding its financial role in the region. The vision on which OBOR is based is reported to have originated from China's Ministry of Commerce, as a means of promoting exports to deal with overcapacity in the steel and manufacturing sectors. Initially, Xi referred to it as the "New Silk Road" (Clover and Hornby 2015).

The initiative subsequently expanded into OBOR, with the much broader role of strengthening China's geopolitical and economic position. OBOR provides a comprehensive umbrella under which China can negotiate interlinked political and economic deals, including strengthening economic relations with its neighbors, building infrastructure that will support its trade and investment, and providing a channel to promote exports in sectors with excess capacity.

Multilaterally, China's financial emergence is reflected in the establishment of the AIIB and, jointly with the four other BRICS countries, the NDB and affiliated Contingent Reserve Arrangement (CRA). The AIIB and NDB are intended to complement the infrastructure and development lending of the World Bank and the ADB, while the CRA is intended to offer emergency financing similar to that provided by the IMF.^② In January 2016, China also became a member of the European Bank for Reconstruction and Development (EBRD), a move seen by many as being linked to OBOR.

註② For the sake of comparison, the approved capital of the AIIB and NDB are \$100 billion and \$50 billion respectively, compared with the World Bank's \$223 billion and the ADB's \$163 billion. The CRA will comprise a pool of \$100 billion of currency swaps, compared with the CMIM's \$240 billion.

On the bilateral front, the CDB and China Exim are by far China's largest international financiers and are expected to be the principal sources of financing for OBOR, with the SRF and AIIB playing relatively minor roles (Kroeber 2015). With initial capital of \$40 billion, the SRF is being financed by China's policy banks, sovereign wealth fund, the China Investment Corporation, and the State Foreign Exchange Administration (The Economist Intelligence Unit 2015). OBOR projects are also expected to be financed by state-owned and private enterprises.

OBOR and the related financial initiatives are new, and questions remain about how they will raise funds. China is placing foreign exchange reserves at the disposal of the SRF, but using public funds has limits. Ultimately the OBOR will also need private funding. Local governments and ministries are busy preparing projects, but it is unclear how much private sector financing they can attract (Clover and Hornby 2015).

To date, China's most prominent international project is the China-Pakistan economic corridor, which is intended to facilitate China's access to Middle-Eastern energy markets. China's oil is currently transported mainly through the Straits of Malacca, and the corridor will provide a strategic alternative. It includes road, railway, port and energy infrastructure and an industrial park. The various subprojects are expected to receive financing from the CDB, the AIIB, Chinese state-owned enterprises and the private sector.

To understand the respective roles of China and the US in the financial architecture, one should also remember the ideological backdrop. Providing abundant public financial support to government-led initiatives is consistent with China's state-driven economic model. In stark contrast, throughout history US support for MDBs has been constrained by objections in Congress to support for government-led financial institutions (Bloch 1968; Hochberg 2015).

IV. Diversified financing, or a race to the bottom?

A. Emerging-economy and Western viewpoints

In establishing new financial institutions, China and the other BRICS countries sought both to shift the political power structures underlying the financial architecture and to expand and diversify the financing available for infrastructure projects. At the same time, they expected that the establishment of new MDBs would encourage the existing MDBs to be more responsive to the concerns of emerging economies, revise their policies and enhance their efficiency. The new banks were expected to engender competition that would benefit

the borrowers.

The US and several other Western countries, on the other hand, have expressed concern that the proliferation of MDBs would lead to a race the bottom. If the new MDBs are willing to compromise on established standards of governance, transparency, and social and environmental safeguards, so the argument goes, it would encourage the established MDBs to relax their own standards, which would raise the risk level of investments. Reference is often made to the CDB and China Exim, which lack transparency and have made numerous risky and unsuccessful overseas investments (Halper 2010; Kynge and Wildau 2015).

The West and Japan have expressed concern that China's initiatives should maintain the highest professional standards, while China and other emerging economies would like to see the financial architecture reformed. These contrasting concerns are reflected in an interesting debate over terminology. ADB President Takehiko Nakao has on several occasions called for the AIIB to apply international "best practices" (ADB 2014). Former Chinese Finance Minister Lou Jiwei, again, has denied the existence of best practices, pointing out that if they existed there would be no need for reform. At the ADB annual meeting in 2015, Lou stressed that there were only "better practices" and reiterated calls for the existing international financial institutions to reform themselves (Lou 2015).

The Western countries that have joined the AIIB are expected to exert pressure within the bank for it to maintain standards of due diligence and transparency established by other MDBs. There has been concern that the new banks will try to substitute for or replace the established MDBs. Despite commitments to work together, cooperation may run up against political obstacles and end up being weak. There is also a risk that the new banks will not subscribe to established international practices and standards related to debt management, due diligence, integrity and procurement. This could lead to the emergence of dual standards and competition to provide financing, which, in turn, could lower lending standards and the quality of investments, and raise their risk level.

B. Methodological challenges

Is the proliferation of financial institutions helping to expand and diversify financing, as the countries establishing the new MDBs envisaged, or will it lead to a race to the bottom, as critics of diversification claim? Documenting the expansion and diversification of financing by the MDBs and Japan's state-owned financiers is straightforward, as they publish detailed annual lending figures. China's policy banks, on the other hand, do not publish detailed lending figures, and recent research has relied mainly on estimates (Forsyth and Sanderson 2013; Kroeber 2015, 32-4; Gallagher et al. 2016, 9). Documenting a race to the bottom is methodologically challenging, and is exacerbated by the significant time-lag at the project

level between loan approval and the time data generated from implementation reviews are available.

The notion of a race to the bottom among MDBs suggests that having a larger number of banks, rather than generating the “healthy” competition that intuition suggests, will generate “unhealthy” competition with high negative externalities. Here, healthy competition is defined as competition between MDBs that generates increased benefits for the borrowing country, in particular increased availability of financing and lower cost of financing and related transaction costs, with relatively few negative externalities. Unhealthy competition is defined as competition among MDBs that, while possibly generating the same positive benefits, also generates significant negative externalities. These include a reduction in the standards of economic, financial, social, environmental and governance due diligence conducted for projects, and the resulting increase in loan or project risk.

Information on the policies and operations of the MDBs is found at four levels: in broad policy statements and documents; operational policies and guidelines; annual lending data; and project-specific data, reports and evaluations. Statements by member governments’ officials and the senior management of MDBs provide guidance on policy shifts within the banks or their member governments. Rathus (2008), for example, examines China’s and Japan’s relations in the ADB based mainly on government policy plans and statements, and Fujita (2011) reviews the World Bank’s approach to human rights based mainly on policy statements. Operational policy changes are usually reflected in the issuance by the MDBs of new or revised policies or guidelines, and are the first place to seek information on changes in the banks’ due diligence requirements.

The MDBs issue detailed annual figures on lending, which are a reliable and relatively up-to-date source of information on lending trends. At the project level, loan documents provide a static picture of project content at approval. Project implementation, however, takes an average of 5-7 years, and there is a significant time-lag between the shifts in lending and operational policies and the generation of data on their impact on project implementation and quality. Due to this time constraint, as the changes discussed here have taken place mainly in the past 1-3 years, we focus on a review of broad policy statements, operational policies and annual lending data.

V. A Funding race is emerging

In response to China’s financial initiatives, MDBs and governments are stepping up

their financing. The two leading MDBs in the region, the World Bank and ADB,^③ are expanding their lending capacity and improving their efficiency, while the region's two most advanced economies, Japan and South Korea, have announced major infrastructure initiatives of their own. Loan approvals from MDBs and bilateral financiers have surged, and the focus has shifted from due diligence toward "moving money".

A. Established MDBs are expanding their lending capacity

At the World Bank's annual meeting in October 2015, President Jim Yong Kim made the case to the shareholders for a capital increase, which would expand the bank's lending capacity. Obtaining US support for such an increase, including the backing of the current Republican-led Congress, is considered particularly challenging. In contrast, then Chinese Finance Minister Lou Jiwei had already well in advance of the 2015 annual meeting indicated that China will support a capital increase. Reflecting the competitive nature of the situation, in a meeting with Kim in early 2015 Lou is reported to have offered to double the \$100 billion capital base of the AIIB, to help increase pressure on the US to support a capital increase in the World Bank (Donnan 2015b).

The World Bank has also recently moved to raise its profile as an infrastructure financier with a wide range of public and private products, and has expanded its regional infrastructure hub in Singapore. An offer by the World Bank in May 2015 to provide Indonesia with up to \$11 billion in infrastructure financing over the next three years was seen as a response to the AIIB and OBOR (Hariyanto and Sentana 2015). At the same time, the World Bank has from the outset adopted an officially supportive position toward the AIIB, offering to finance projects jointly and providing technical advice on the establishment of the new bank.

Taking its cue from the Government of Japan, the ADB has been wary of the AIIB, viewing it mainly as a competitor. The ADB's initial response to the AIIB's establishment was negative, with ADB President Nakao playing down the need for the new bank and emphasizing the ADB's own financial capacity and strong track record in financing infrastructure and development projects (Donnan 2015a; ADB 2014). The ADB subsequently moderated its response and has since the mid-2015s indicated its willingness to work with the AIIB, including joint financing (Venzon 2015).

At the same time, the ADB has also moved assertively to expand its own capital base and lending capacity. In 2013, the ADB initiated discussion with its members to incorporate

註③ The EBRD and the European Investment Bank (EIB) are also active in the region, but their lending is modest. In 2014, the EBRD approved new funding of about €0.8 billion in Central Asia, and the EIB approved €0.72 billion for Asia (EBRD 2015; EIB 2015).

in its ordinary capital balance sheet the resources provided by donor governments for concessional lending to poorer member countries. The measure was approved by the bank's Board of Directors in March 2015 and is expected to allow the ADB to increase its annual lending from \$13.7 billion in 2014 to about \$20 billion in 2017. It is also planning to double joint financing from other sources, from its 2014 level of \$9.2 billion, bringing the bank's total annual financing capacity to about \$40 billion (ADB 2015a).

The AIIB, again, has tried to establish an identity distinct from the World Bank and ADB. It has emphasized its role as a financier of infrastructure, rather than broader development goals such as poverty reduction and social development. It has also highlighted the importance of efficiency, an implicit reference to criticism that the established MDBs are overly bureaucratic. AIIB President Jin Liqun plays down concerns over governance and transparency, stressing that the new bank will be "lean, clean and green", and that it will be faster and more efficient than the established MDBs (Jin 2015).

ADB President Takehiko Nakao, again, in an apparent effort to play down the novelty of the AIIB, has emphasized that despite its broader development goals, the ADB is also predominantly an infrastructure financier. In early 2016, Nakao reiterated the ADB's commitment to expanding operations, and, in a statement that reads like a response to the AIIB's Jin, reaffirmed that the ADB "will be a stronger, better and faster bank by deepening our partnerships with member countries, other international financial institutions, and civil society" (ADB 2016).

B. Japan and South Korea have new international infrastructure initiatives

Japan has responded to OBOR and the AIIB with a financial initiative of its own. In a major policy speech in May 2015, Prime Minister Shinzo Abe formally announced Japan's "Partnership for Quality Infrastructure", under which he committed to invest up to \$110 billion in Asian infrastructure over the next five years. Abe indicated that the initiative will be financed through Japan's official development assistance (ODA), the Japan Bank for International Cooperation (JBIC), private sector financing, and by expanding the lending portfolio of the ADB (Abe 2015).

In his speech, Abe emphasized Japan's intention "to spread high quality and innovative infrastructure throughout Asia, taking a long-term view." He also stressed that given Asia's vast demand for infrastructure, the emphasis will be on both quality and quantity (Abe 2015). The focus on quality is consistent with Japan's technological and commercial capabilities. It was also seen as an implicit reference to the concerns that have been raised about the lending standards of the AIIB and China's policy banks (Parameswaran 2015).

In October 2013, soon after Xi Jinping announced OBOR, President Park Geun-hye announced South Korea's own Eurasia Initiative (Park 2013). The proposal is sweeping in scope, starting from the unification of the two Koreas, and covering international cooperation in trade, energy and infrastructure. However, compared with the OBOR and Japan's Quality Infrastructure initiative, which both make specific financial commitments, the Eurasia Initiative lacks financial detail.

The Korean initiative also strikes a careful balance between China and the West. On the one hand, it converges with many of China's infrastructure projects under the OBOR. On the other hand, it highlights South Korea's reliance on the US, which has been the backbone of its security since the Korean War (Kim 2015).

C. Loans and disbursements are increasing and diversifying

There are two key indicators of a multilateral or bilateral development bank increasing its lending. Annual loan approval figures indicate the volume of new financial transactions negotiated and approved. Following approval, loan disbursement figures indicate the volume of funds actually transferred by the bank to its borrowers.

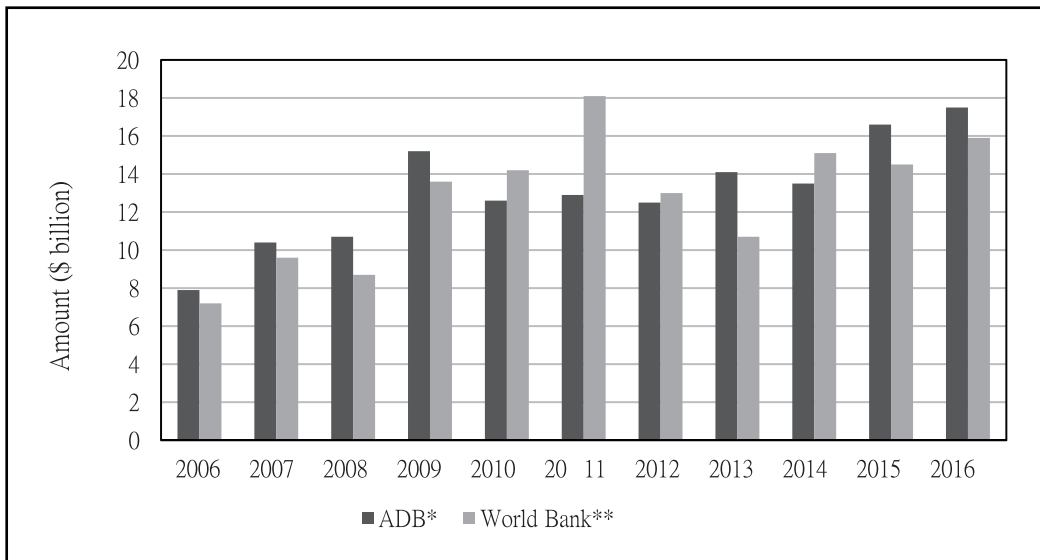
In the past decade, the CDB and China Exim have rapidly expanded their international lending. Recent estimates indicate that their annual lending has surpassed that of the World Bank and other MDBs combined. According to Kroeber (2015, 32-34), in 2014 China Exim disbursed a total of \$151 billion, of which \$80 billion was for international investments comparable to those of the MDBs, while the CDB disbursed a total of \$125 billion, for both domestic and international projects. Based on a comparison of estimated assets, Gallagher et al. (2016, 3-9) also conclude that the lending capacity of the CDB and China Exim exceeds that of the MDBs combined.^④

The AIIB started to lend in 2016. Its initial lending, for \$1.7 billion, indicated the bank's reliance on established MDBs, close alignment with OBOR priorities, and a focus on conventional transport and energy infrastructure (Hsu 2017). Five of the nine loans approved, worth 72 percent of lending, relied on due diligence by other MDBs, including safeguards. Three countries, Azerbaijan, Oman and Pakistan, accounted for 75 percent of the loans, including motorway and hydropower projects in Pakistan aligned with the China-Pakistan economic corridor and OBOR (AIIB 2017).

註④ To put these estimates in perspective, in 2014 the combined new commitments of JBIC and JICA were about \$35.9 billion, in 2015 World Bank global loan approvals were \$42.5 billion and ADB approvals \$16.6 billion, and in 2016 the AIIB approved loans of \$1.7 billion (ADB, JBIC, JICA and World Bank 2015 annual reports, and AIIB 2017).

Lending figures for the World Bank and the ADB support the notion of a funding race. Figure 1 shows the annual loan approvals of the ADB and the Asia-Pacific loan approvals of the World Bank in 2006~2016. The lending of both banks in the past decade has followed a similar pattern, including two significant upswings. The first was in 2009~2011 in response to the global economic and financial crisis, and the second started in 2014~2015, coinciding with the rapid emergence of China’s financial initiatives.

Figure 1. ADB and World Bank Loan and Grant Approvals in Asia-Pacific, 2006~2016(\$ billion)



*ADB figures include ordinary loans and ADF concessional loans and grants, and cover all borrowing countries, including East, Central, South and Southeast Asia, and the Pacific. The ADB’s fiscal year is the calendar year, and the figure for 2016 is based on staff projections.

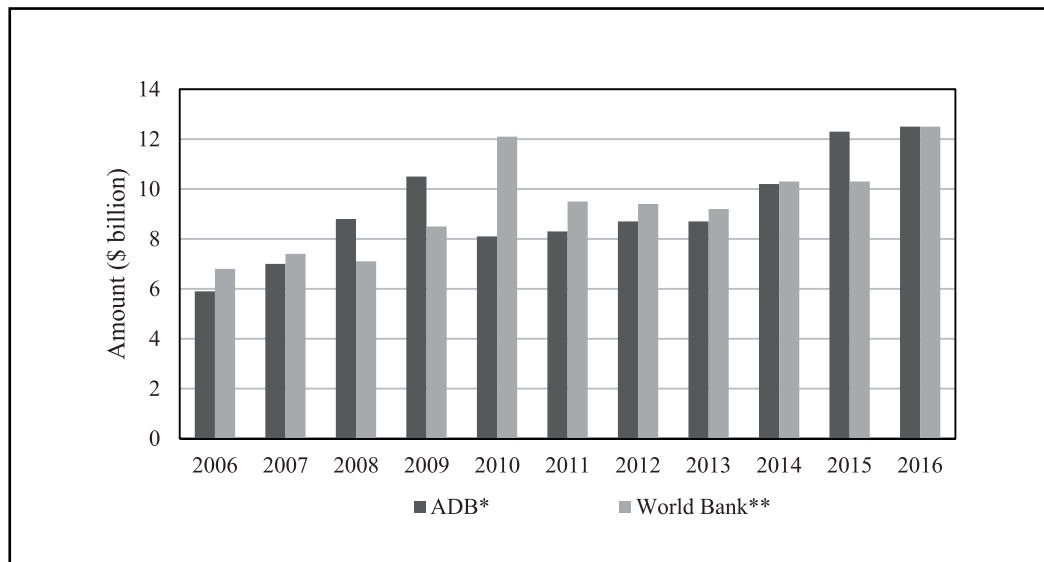
**World Bank figures include IBRD loans and IDA credits and grants. They cover East, South and Southeast Asia, and the Pacific, but do not include Central Asia. The World Bank’s fiscal year is from July to June, and the 2016 figure is for actual loan approvals in fiscal 2015~2016.

Sources: ADB, 2006~2016 and World Bank, 2006~2016.

The scaling up is particularly evident in the ADB, whose loan approvals increased 23 percent in 2015 and a further 5.4 percent in 2016, reaching a record high of \$17.5 billion. In a summary of its operational achievements in 2015, the ADB highlighted its expanded lending, the establishment of a new office of Public-Private Partnership, to mobilize funds for infrastructure development, and the streamlining of procedures to enhance operational efficiency (ADB 2016). All major achievements are linked to the growing competition to finance infrastructure.

Figure 2 shows the annual disbursements of the ADB and World Bank in 2006-15. The figures fluctuate less than loan approvals, reflecting the levelling effect of the time-lag required for project implementation. However, the trend is similar to that of loan approvals. A spike in 2009~2010 reflects the disbursement of funds approved during the global crisis,^⑤ while an upswing starting in 2014 coincides with China's financial emergence. Given the generally modest annual shifts in disbursements, the increase in the ADB's disbursements by 17.2 percent in 2014 and a further 20.6 percent in 2015 and the increase in the World Bank's disbursements by 21.4 percent indicate a concerted effort to accelerate the transfer of funds.

Figure 2. ADB and World Bank Disbursements in Asia-Pacific, 2006~2016(\$ billion)



*ADB figures include ordinary loans and ADF concessional loans and grants, and cover all borrowing countries, including East, Central, South and Southeast Asia, and the Pacific. The ADB's fiscal year is the calendar year. The figure for 2016 is based on staff projections.

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Sources: ADB, 2006~2016 And World Bank, 2006~2016.

註⑤ The fact that ADB disbursements peaked in fiscal 2009 and the World Bank's in fiscal 2010 is explained by the difference in their fiscal years, with World Bank figures for 2010 showing disbursements from July 2009 to June 2010.

D. Established MDBs are improving efficiency and easing due diligence

The World Bank and ADB are also taking steps to improve their efficiency, revise their operational policies, and ease due diligence requirements. However, efficiency enhancements are a double-edged sword. They generally focus on increasing the volume and speed of operations, and reducing transaction costs. Critics are concerned that this may compromise quality and increase project risk.

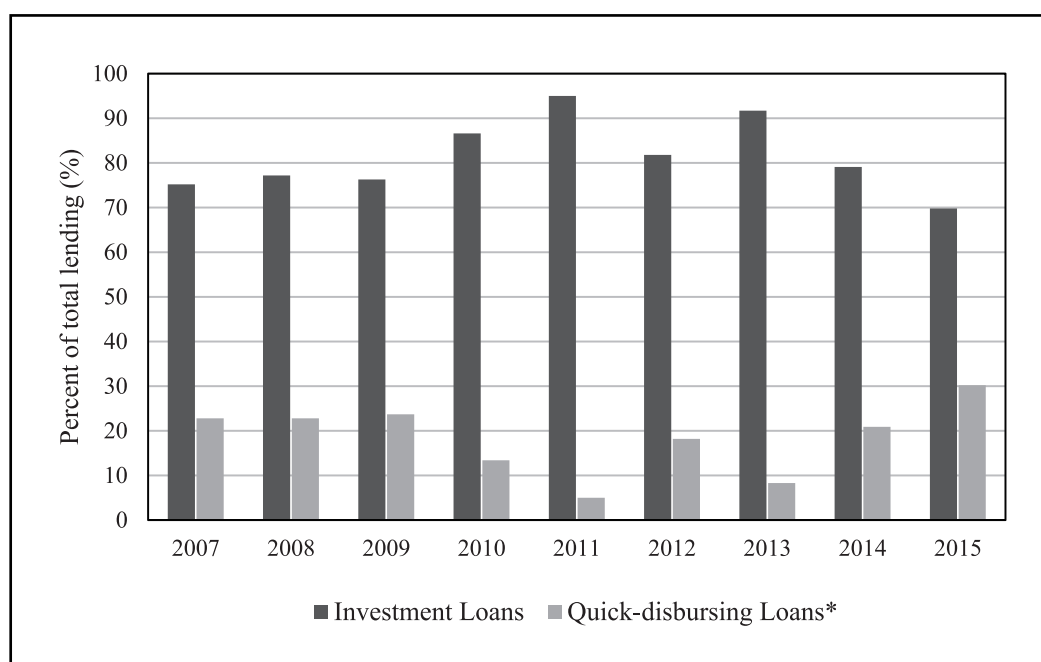
In 2016, the AIIB established a social and environmental framework that resembles that of the established MDBs, and President Jin has repeatedly stressed that the bank will maintain high operational standards. However, he has also stressed that the AIIB will be faster and more efficient than the established MDBs. When the NDB and AIIB were first proposed, the criticism levelled against the existing banks by China and other emerging economies for being bureaucratic and inefficient was a key justification for establishing new MDBs. The recent policy changes in the World Bank and ADB are largely in response to this challenge.

In August 2016 the World Bank approved a new environmental and social framework to replace its previous policies for safeguards-related due diligence (World Bank 2016). The framework is broader in scope than the policies it replaces, but relies heavily on the safeguard policies of the borrowing countries. By allowing borrowers to use their own standards, the new framework makes it easier for them to comply with the bank's due diligence requirements, and to borrow. Critics, however, consider that due diligence standards have been compromised, in particular in relation to environmental and social risks and the protection of vulnerable groups (Donnan 2016).

The ADB has also recently introduced a range of measures to improve efficiency and make it easier for countries to borrow. The measures will accelerate project implementation and step up disbursements (ADB 2015b). Since 2014, the ADB has significantly increased the use of quick-disbursing lending that allows the bank to accelerate the transfer of funds to borrowers. In conventional investment loans, which constitute the bulk of MDB lending, there is a time-lag of up to several years between loan approval and disbursement of funds, due to the time taken to tender and implement contracts. Under policy-based lending, funds are disbursed in tranches linked to the borrower meeting policy conditions, rather than the physical progress of a project. This allows the gap between the approval and disbursement of funds to be reduced to just months, significantly accelerating the flow of funds. Policy-based loans are typically used to support policy changes during economic crises or in connection with other major reforms, and are preferred by borrowers because they provide quick access to funds. However, MDBs are also criticised for using quick-disbursing loans to “push money out the door” without the quality controls that accompany investment loans.

Figure 3 shows the annual breakdown of ADB lending by investment loans and quick-disbursing loans. The high proportion of quick-disbursing lending in 2007~2009 is explained by the demand for financing to address liquidity problems around the global financial crisis. However, at the time of the second surge in quick-disbursing loans, in 2014~2005, there was no region-wide liquidity crisis, and the surge reflects management’s push to expand lending.

Figure 3. The Asian Development Bank’s Use of Investment Loans and Quick-disbursing Loans, 2008~2015 (percent of total lending)

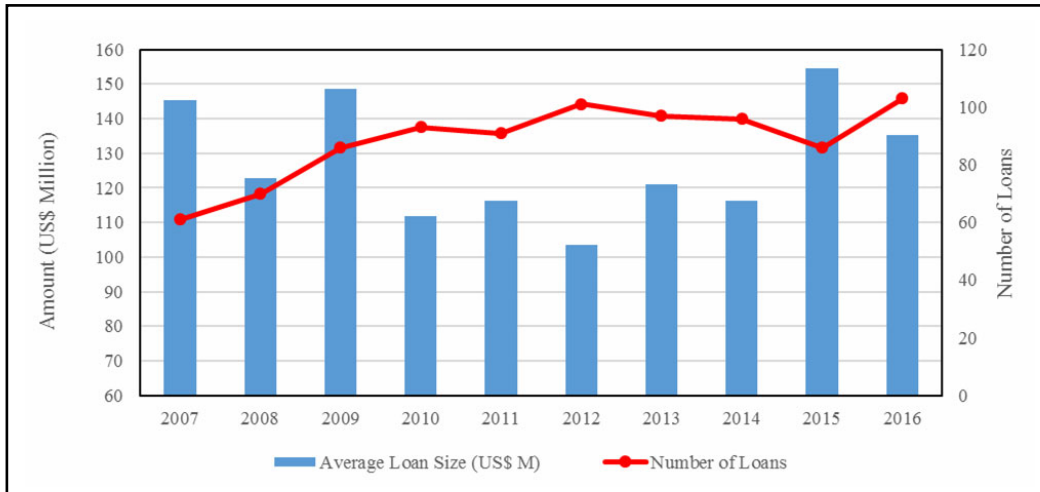


*Policy-based loans and, since 2014, results-based loans.

Source: ADB, 2007~2016.

Increasing loan size is another way to accelerate fund transfers to borrowers. Figure 4 shows the average size of new ADB loans approved in 2008-16, and a similar trend. In 2007-9, the average size of new loans was \$139.4 million, reflecting the high demand for financing around the global crisis. In 2010~2014 this dropped to \$114.2 million. However, in 2015 loan size increased by 33 percent, averaging \$144.1 million in 2015-6.

Figure 4. The Asian Development Bank's Average Loan Size, 2007~2016



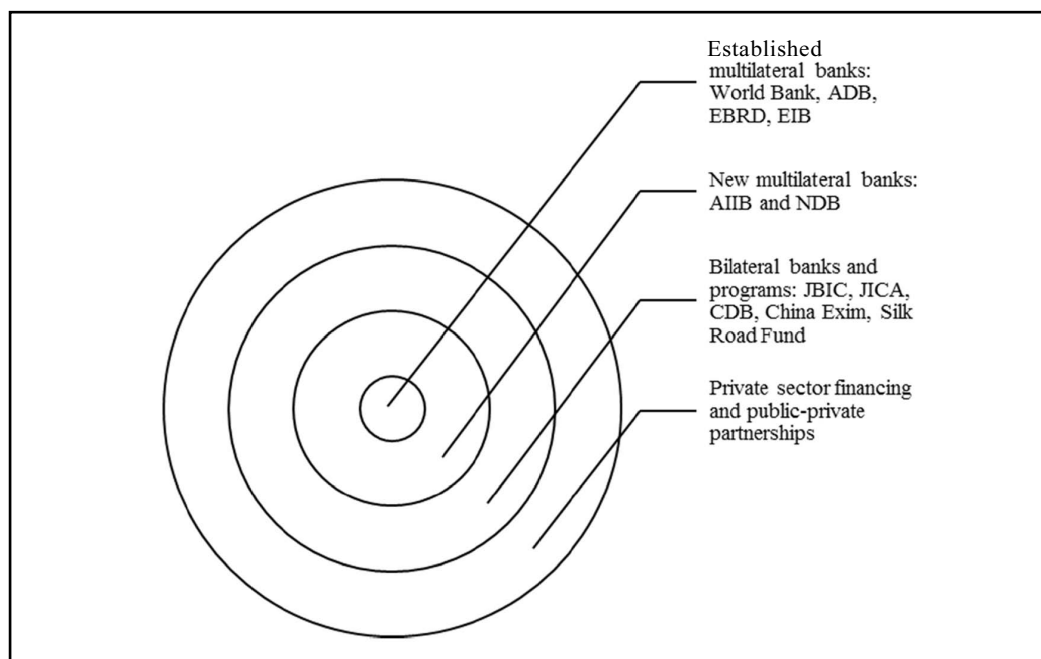
Source: ADB, 2007~2016 and staff estimates.

VI. Finance, influence and lending standards

The competition that is taking shape in Asia is much broader than simply a funding race between established and new MDBs. Underlying the competition are wide-ranging economic, financial and geopolitical interests. Ultimately, the economic and financial leadership of the region is at stake. The need for infrastructure is enormous, but at the same time there is a shortage of “bankable” projects that are both technically and financially viable (Kroeber 2015). This is likely to exacerbate the competition, which involves MDBs, state-owned policy banks, bilateral development agencies, private financiers and various forms of partnership between public and private sources of finance.

A key element of the competition concerns the degree to which financiers are willing to adhere to established international practices for due diligence, procurements, integrity, and environment and social safeguards, and to participate in aid coordination under the aegis of the Organization for Economic Cooperation and Development (OECD) and debt management under the IMF and World Bank. The issue is presented in Figure 5, which groups the sources of financing in four concentric circles.

Figure 5. Competing sources of infrastructure finance



Source: Author.

In the inner circle, the World Bank, ADB and other established MDBs, adhere to international standards and frequently themselves serve as standard-setters. In the second circle, the new MDBs (AIIB and NDB) are still formulating their positions on international standards. Due to its multilateral governance structure, the AIIB in particular is under pressure, mainly from Western governments, to comply with international lending standards and practices.

The third circle comprises bilateral banks and funds, whose compliance with international standards varies significantly. Japan is a member of the OECD and its Development Assistance Committee (DAC), which sets practice standards for the provision and monitoring of official development assistance (ODA). Consequently, the Japan International Cooperation Agency (JICA), which provides loans on concessional terms, is required to adhere to the DAC norms governing ODA. Japan’s international policy financier the JBIC also adheres to established international lending norms. In contrast, China is not a member of the OECD and DAC, and the CDB, China Exim nor the SRF are not required to comply with international norms.

The fourth circle comprises private sector financing and public-private partnerships, which are not governed by the same compliance requirements as multilateral financing, ODA or other forms of public financing.

The establishment of new MDBs offers significant opportunities, but also poses risks. There is initial evidence that the proliferation of financing is generating “healthy” competition between the established sources of infrastructure and development finance and the new institutions. This will increase the resources available to meet the demand for infrastructure financing in the Asian region and reduce transaction costs, to the benefit of the borrowers. However, there is also initial evidence “unhealthy” externalities. The competitive situation may put financing standards and project quality at risk.

The government-driven race between China and Japan to develop railways in Southeast Asia is a case in point. Japan has long been considered the international leader in high-speed rail technology, but is currently rapidly being surpassed by China. The competition was prominently in the news in 2015 when Indonesia selected China over Japan for a contract of about \$5 billion to construct a high-speed rail link between Bandung and Jakarta. The contract is part of a broader competition for railway infrastructure development in Asia. Closely aligned with OBOR, China is implementing a massive railway development program linking Southern China to key locations in Southeast Asia, including Laos, Thailand, Vietnam, Malaysia and Singapore. In recent years it has agreed on the construction of a \$6 billion rail-link between Kunming and Vientiane, and has spent several years negotiating a rail contract in Thailand. Japan is building a high-speed link between Malaysia and Singapore, and both countries are vying for railway contracts in Indonesia (Snelder 2016).

The bidding competition for the Bandung-Jakarta railway project demonstrates the range of issues involved. Japan started to lobby for the project in 2009 by financing a broader feasibility study, for a railway between Jakarta and Surabaya. Its subsequent bid was for a high-speed railway between Bandung and central Jakarta, with a construction period of five years and a total cost of \$4.5 billion. Financing would have been provided mainly through a long-term concessional loan from its foreign aid agency JICA. Consistent with Japan’s requirements for ODA, the loan would have required a guarantee from the Government of Indonesia.

China submitted a competing bid for a railway between Bandung and the outskirts of Jakarta, with a construction period of three years and a total cost of \$5.2 billion. The proposal relied mainly on financing from the CDB, and required no government guarantee. There were significant technical and financial differences between the two proposals, and both parties negotiated behind the scenes to make their bids more attractive. When the contract was awarded to China, Japan raised concerns that China had cut corners on quality, while the Indonesian government indicated that the decision was taken on financial grounds (The Japan Times 2015; Kwok 2016). At the same time, given that the bids were backed by government-owned financiers, there is little doubt that both governments brought political pressure to bear (Harner 2015).

VII. Countries are positioning themselves

China's slowing economy and rebalancing from investment toward consumption will lead to slower industrial growth and an expansion of services. The rebalancing is creating challenges and opportunities for both OECD countries and China's emerging economy neighbors. OBOR and the AIIB provide China with tools to promote its own interests, but also offer other countries opportunities. Countries' membership in the AIIB and participation in the region's trade initiatives provide initial insights into how they are positioning themselves.

When China first sounded out countries' interest to join the AIIB, at the ADB annual meeting in May 2014, the invitees included mainly Asian and European countries. India, Japan and the US were excluded. Subsequently the initiative was opened up, and by February 2015, 27 countries, mainly from Asia and the Middle East, had signed up as founding members.

At that point, the US, supported by Japan, was strongly opposed, and there was agreement among the Group of Seven countries not to join the bank. The US also applied pressure on its allies Australia and South Korea not to join. With the 31 March 2015 deadline for founding members to sign up approaching, in a clear effort to position itself opportunistically toward China's expanding economic influence, on 12 March 2015 the United Kingdom was the first European Union (EU) member to break rank and indicate that it would join the AIIB (Wihtol 2015). Within days, France, Germany and Italy followed the UK's lead, and by the end of March 2015, the number of founding members had risen to 57.

The rush to join the AIIB reflects the importance attached by many to ensuring good relations with China. The delay preceding the rush reflects the pressure that US allies came under to maintain relations with the established superpower while building their relations with the emerging power. The fact that many countries decided to join at the last minute reflects a lack of coordination within the EU and among the OECD countries, and significantly weakened their position in the negotiations that followed.

The US expressed considerable dissatisfaction with the UK's much-publicized opening. Xi Jinping's state visit to the UK in October 2015, and the fact that the UK was willing to prioritize economic and commercial relations with China over relations with the US and concerns about security and human rights, highlighted the dilemma faced by many Western economies. It was only once the UK decided to join that Australia and South Korea felt free to apply for membership. Of the OECD countries, only Japan and the US remain outside the

AIIB.

Most Asian countries signed up to join the AIIB.^⑥ However, countries with territorial disputes with China have expressed trepidation about the leverage the bank might give its largest shareholder. Of the 57 founding members, 50 signed the articles of agreement at the end of June 2015, while seven delayed, including the Philippines.^⑦ Relations between the Philippines and China have been fraught by territorial disputes, and the delay reflected Manila's ambivalence about China's expanding leadership role (Heydarian 2015). Following the founding of the AIIB, about 25 countries from Africa, Europe and Latin America, as well as Canada, have applied for membership (Kynge and Pilling 2017). Seventeen were accepted as members in March 2017, raising the total number of members to 70, with further approvals expected later in the year.

The emerging trade alliances have also highlighted the competition between China and the West. Initially, the TPP was led by the US and the RCEP by China. The two alliances were designed not only to attract Asia-Pacific countries, but to exclude the other major player, China in the case of the TPP and the US in the case of RCEP (2014). At the same time, several countries, notably Australia, Malaysia, New Zealand, Singapore and Viet Nam, hedged their bets and joined both initiatives. In January 2017, the Trump administration withdrew US support for the TPP, while Xi Jinping reaffirmed China's continuing support for liberalizing trade in Asia and the Pacific through the RCEP (Xi 2017). This at least temporarily gives China an edge in leading trade negotiations. However, it is clear that countries will continue to position themselves strategically as regional trade agreements evolve.

VIII. Competition or cooperation?

China's financial initiatives are challenging the leading role played by the Bretton Woods system, the US and Japan in the Asian financial architecture. In recent years, there have been numerous calls for a comprehensive review of the global financial system. Given the divergent interests of developed and emerging economies, however, the prospects for such reform are slim.

Rana (2014) suggests that we are likely to see "an architecture that will move incrementally towards a more decentralized system where national and regional initiatives will work closely with the existing [international financial institutions]" (2014). The

註⑥ Of the countries that expressed interest to join, China has turned down only North Korea and Taiwan.

註⑦ All seven, including the Philippines, signed the articles of agreement before the 31 December 2015 deadline.

architecture is clearly becoming more decentralized. However, it is far less clear that the new national and regional initiatives will work with the existing financial architecture. Countries are positioning themselves with varying degrees of political opportunism in relation to the OBOR and AIIB, and regional trade initiatives. There also signs of alignment along political lines between bilateral and multilateral initiatives. On the one hand, the ADB and World Bank are already cooperating with the AIIB. On the other hand, there is a strong perception that the AIIB will be used to support the OBOR, while Abe sees the ADB as a source of financing for Japan's Partnership for Quality Infrastructure.

China's new initiatives are challenging the regional architecture, but the outcome will depend on how others respond. There is a risk that the competing initiatives will lead to the emergence of trade and financing blocs. But there is also strong justification, from an economic, geopolitical and security perspective, for regional initiatives to be as inclusive as possible. As Dollar (2015) points out, China would benefit from cooperating with the US in international trade, while the US would benefit from joining the AIIB (2015).

Achieving inclusiveness will require both political will and a raft of practical measures. At the global level, it will be important for the new banks to participate in the World Bank-IMF debt sustainability framework and other international debt monitoring mechanisms. It would be desirable for China's policy banks and the SRF to participate in international debt monitoring. The new banks should also join the well-established coordination among MDBs of procurement policies, integrity policies, including the cross-debarment of firms on the sanctions lists of other MDBs, and other operational policies and practices. The AIIB and NDB have already participated in several MDB-wide coordination meetings.

At the regional level, it will be important for the new banks to participate in regular consultations with other MDBs. In Asia, these are usually held in connection with the ADB annual meeting. The established and new MDBs should also coordinate at the country level, keep each other informed of planned investments and seek to coordinate on questions of macroeconomic and sector policy. If the established and new MDBs can work together successfully, they can help to consolidate rather than fragment the region's financial architecture.

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中國在亞洲啟動一場 對基礎建設融資的競賽

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摘要

過去 70 多年來，一直由布列敦森林體系機構主導的亞洲金融結構正處於轉折點。中國與其它新興經濟體不滿這些機構緩慢的改革進程，轉而建立自己的金融機構，如亞洲基礎設施投資銀行和新開發銀行。同時，中國並透過「一帶一路」和大型政策性銀行擴大雙邊融資。二戰後亞洲區域金融結構的演化約分為四個階段：1950 年代和 1960 年代，世界銀行和國際貨幣基金組織是唯一的多邊融資機構；1966 年亞洲開發銀行成立和 1967 年東南亞國家協會成立，標誌著區域化的開始；1997 至 1998 年間的亞洲金融危機導致區域化進一步的深化；第四階段與中國的金融地位崛起有關，並啟動一場帶有政治色彩的資金競賽。世界銀行、亞洲開發銀行和日本都已加強提供融資作出回應。本文檢視資金競賽的正負面影響，即有利於借款人的良性競爭影響和形成不良外部因素的非良性競爭影響。中國已引發一場融資的擴張和多元化。世界銀行和亞洲投資銀行正設法提高其效率，此一發展對貸款方有利。然而，也有初步跡象顯示，這些機構已將焦點從投資風險評估轉向錢的流動性。這可能使金融結構形成以西方陣營領導和由中國主導之機構間競爭的風險。為避免這類風險，新興的銀行和中國政策性銀行最好能沿用既定之國際貸款標準，並參與國際債務管理；同時新興銀行應在全球、區域和國家層面進行密切協調。

關鍵詞：亞洲開發銀行、亞洲基礎設施投資銀行、中國、國際金融機構

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