

Asia, the New MDBs, and Multilateral Development Finance and Governance

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Asia's Thumb Role in 21st Century Global Economic Governance – (Madhur, 2012).



Either the rest of the world makes way for Asia's thumb role, or else Asia carves out its own space - cautioned experts not-so-long ago!

- “The image of Hu Jintao, the president of China, and Manmohan Singh, the prime minister of India—quite possibly the largest economies on earth within our lifetimes—waiting outside while we held our G8 meetings, coming in for lunch, and then being ushered from the room so that we could resume our discussions among ourselves, is one that stayed with me ... Either the world will reform its institutions, including the G8, to embrace these new economic giants, or they will go ahead and establish their own institutions”.
- Paul Martin, former Canadian Prime Minister, expressing his concern and frustration about the slow pace of reforms of the global governance institutions (such as the International Monetary Fund (IMF) or the World Bank) less than a decade ago in 2008.

The rest of the world was too slow and the emerging Asian giants took the lead in establishing two new MDBs

- In the years since Paul Martin cautioned, the world was far too slow in ‘reforming its institutions... to embrace these new giants’.
- The giants have indeed gone ahead and established two new multilateral development banks (MDBs) – the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB).
- The establishment of these two MDBs in 2015 marks a milestone in the evolution of international development finance and governance.
- The two 21st century MDBs are making their debut at a critical time when the MDB family as a whole is coming under increasing criticism on the one hand and is being asked to provide ‘more’ and ‘better’ development finance on the other.
- The two MDBs look like fraternal twins!

The new giants met not-so-long ago - for a global cause...



Harmony or balance? Indian Prime Minister Manmohan Singh and Chinese President Hu Jintao meet in Brasilia for a BRIC summit

AIB signing ceremony on 29 June 2015



Almost simultaneously, BRICS leaders set up the NDB



Hosted by [Russia's Vladimir Putin](#) leaders of [Brazil](#), [China](#), [India](#) and [South Africa](#) attend the [7th BRICS summit](#) 



Commendable achievement, but ‘now comes the hard part’ for the two new-born MDBs

- Commendable achievement in rather quick time, tackling some tricky political issues that are inherent in such multilateral ventures.
- As of now, the ‘life expectancy’ of the new-born MDBs seems high.
- Expectations of them revolutionizing MDB finance is also pitched rather high.
- The duo seems to have the potential to become game-changers in development finance for the world in general and Asia in particular.
- Yet, going by the experience of their predecessors, the challenges of nurturing the duo in the initial years and guiding them to grow into mature multilateral development institutions cannot be understated.
- As one expert put it recently: “now comes the hard part” (Larry Greenwood, 2016).

Daunting task of balancing 'development' with 'banking' - involving both financial and social engineering. ...financial engineering first...

- The challenge of moving from 'billions' to 'trillions' in developing country infrastructure investment by the MDB family – SDG and the Paris Climate Change agreement.
- The two new MDBs are unlikely to be demand-constrained for development funding.
- Yet, the two will face the quintessential MDB challenge - balancing between the 'cost' and the 'volume' of lending?
- How best would they do this financial engineering? Super-safe banking or scaling up development funding?
 - How could they optimize leveraging their seed money – paid-in capital?
 - What equity-loan ratio (ELR) is pragmatic for them?
 - Can they shape up and scale up guarantees for development?
 - Is relying on local currency financing an option?
 - Should they go for more non-sovereign loans?
 - How best can they collaborate with the national development banks?

Pragmatic social engineering – balancing between ‘banking’ and ‘socio-environmental safeguards’ (SEs) – the latter, in turn, due to a continuously expanding global development agenda.

- Should the duo simply replicate the social and environmental safeguards (the SEs) of their more established peers?
- Should they be stricter in SE policies, standards, monitoring, and compliance?
- Rely on country systems and practices - either solely or as benchmarks?
- Standardize safeguards across countries or be more flexible and customize them?
- Can they move from the current practice of ‘standardized’ safeguards to ‘basic plus customized’ safeguards?
- The auto-industry practice of a ‘basic model’ plus ‘options with additional costs’?
- How best to implement the ‘basic plus options’ safeguards model?
- What to include in the ‘basic safeguards’ and the ‘options list’?
- Who pays the additional costs of the options? How to balance the interests of the ‘donor-members’ with those of the ‘borrower-members’?
- Who manages the civil society organizations? the MDBs or the national governments? what amounts to an optimum consultation?
- The fundamental question – SEs for, and by, whom? The jury is still out, and the new-born duo have a great opportunity to set the ‘next practices’

Pragmatic social engineering – which of these socio-environmental externalities should MDBs address (and how) and which to be left to the countries?



Ultimately, will it all boil down to managing member-country politics?

- “... we know that political actors care about power and influence associated with development finance” (Wang, 2016: 2).
- China, and to a lesser extent, India have taken their shots at establishing ‘their MDBs’.
- Will these new MDBs ‘meld’ or ‘mould’ multilateral development finance and global governance?
- Will the absence of the US and Japan from the membership of the new MDBs be help or a hindrance to their credibility and functioning?
- Who would call the shots? China, or would it be a really shared political leadership? what roles for India, Russia, and Brazil, and ASEAN?
- ASEAN in AIIB – ASEAN likes China’s trade, commerce, and finance but not its geopolitics.
- ASEAN does not have too many problems with democratic India’s geopolitics; equally less enthused about India’s trade, commerce, and finance, though.
- How will the ASEAN dance with the two neighboring giants – communist china and democratic India?
- And, of course, the eternal internal question for ASEAN - who leads ‘ASEAN’?

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