A new wave of decentralization in development financing represented by the China-led Asian Infrastructure Investment Bank and New Development Bank has been widely seen as a threat to the World Bank and Asian Development Bank. This need not be the case. The new banks’ focus on infrastructure financing in developing Asia is welcome, while the World Bank and others represent continuity and good governance, write Ramon Pacheco Pardo and Pradumna Rana. Signs of useful cooperation are already emerging.
GLOBAL ECONOMIC governance is in flux. In the case of the international development financing architecture, a new wave of decentralization is under way. Among the most relevant phenomena is the launch of new multilateral development banks with non-traditional donors in the lead: the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). Both have one thing in common: China's centrality. As a result, they are seen as challengers to the traditional development banks — most notably the World Bank and the Asian Development Bank (ADB).

In this essay, we argue that the creation of new institutions is, per se, neither good nor bad. It depends on how the institutions work with each other. I also argue that contrary to popular belief and ongoing criticisms, there are as yet no signs of "unhealthy" competition between the traditional and non-traditional multilateral development banks (MDBs). On the contrary, the two new ones are beneficial to the existing development financing architecture in general and to the World Bank and ADB in particular. The reasons are threefold. To begin with, the China-led institutions are necessary due to massive infrastructure financing needs in Asia and the obsolescence of governance structures of the traditional MDBs. Furthermore, the AIIB and NDB have introduced a degree of "healthy" competition to the development financing architecture that should help developing countries by providing more funds. In fact, the AIIB and NDB, and co-financed projects are already being implemented. Functional areas of potential co-operation include knowledge and information-sharing; country-, sector- or firm-specific co-operation; and regular consultation. Therefore, greater complementarity is expected among institutions to define their relationship to the benefit of developing countries across Asia.

THE CASE AGAINST CO-OPERATION
At first glance, however, many believe the creation of the new MDBs will spur "unhealthy" competition. New institutions lead to the decentralization and fragmentation of global governance. A patchwork of international institutions with different characters, members, geographical reach and subject matter emerges. Inevitably, these institutions take different approaches and develop their own policy solutions — even if they are tackling the same problem, such as the development needs of Asia. Also, these different institutions often compete for the same clients, especially in an international system awash with liquidity. This raises the incentive to reduce standards to attract clients, who have opportunities for forum shopping and arbitrage. Contestable multilateralism is the result of this fragmentation. The Bretton Woods institutions, launched in 1944, dominated both short-term liquidity provision in the case of the IMF and longer-term development financing in the case of the World Bank. In the case of the latter, a wave of regional and sub-regional development banks created throughout the decades did not challenge the World Bank's position at the top. It was the largest provider of development financing and, crucially, the way in terms of new thinking and ideas about development. The new development banks, however, are dominated by non-traditional donors with their own ideas about development. Most notably, their focus is on infrastructure building rather than the social development goals favored by the World Bank since the turn of the millennium. For the first time, the World Bank faces competition in the realm of ideas, and not only in terms of pure financial power.

China's position is particularly problematic for traditional MDBs. It is no secret that Beijing launched the AIIB and NDB at least partly as a result of displeasure with the distribution of power in the World Bank and ADB. First, China sought to reform these institutions in order to have a greater say within them, particularly the World Bank. When it became clear that this would not work, Beijing simply used part of its savings to establish the two new institutions. Given their origins, it seems reasonable to think that co-operation between new and traditional development banks will not be forthcoming. It would not make sense for China to launch new institutions for them simply to provide economic support to World Bank and ADB projects under existing ideas about development.

THE NEEDS OF DEVELOPING ASIA
But traditional and non-traditional MDBs are being co-operative, most notably with co-financed projects. A key reason relates to the needs of developing Asia. Studies for the ADB show that this region will need US$8.2 trillion in infrastructure investment. Nevertheless, from the 1980s onwards, the World Bank and ADB have focused on structural reforms and social development. In contrast, infrastructure development has received a decreasing percentage of development funds flowing into the region. By the 2000s, investment in infrastructure accounted for 30 percent of the World Bank's total, down from 70 percent in the 1960s. The fall was less dramatic in the case of the ADB, but the Asian bank also saw a decline. Countries in Asia were thus deprived of the necessary investment to build and upgrade their infrastructure for more rapid economic development.

In order to address this situation, the AIIB and NDB have a clear focus on infrastructure build-
ing. The projects so far approved and launched include pipelines, roads, railways, hydropower plants, dams, ports and other infrastructure schemes. Noticeably, none of the two institutions has any project focusing on structural reforms and social development. Taking a cue from China’s own development experience, the two institutions focus on infrastructure at the expense of other goals that — from a developing country perspective — can be seen as interfering in domestic affairs. Infrastructure development, on the other hand, is generally seen as economically beneficial without having any political connotations other than boosting the sitting government taking credit for the new road or dam.

The World Bank and ADB have also recognized this need. Both have launched joint infrastructure building projects with the AIIB in countries such as Azerbaijan and Bangladesh — albeit not with the NDB at the time of this writing. But they have not blindly agreed to AIIB demands. In fact, joint projects have undergone environment and social protection assessments, suggesting that the World Bank and ADB are already having a practical influence on the work of the new MDBs. Likewise, the latter are having an influence on the attention that the former pay to infrastructure. In October 2014, the World Bank announced the launch of a New Global Infrastructure Facility. The G20 followed suit with its own Global Infrastructure Hub, announced in 2016. These announcements came shortly after the BRICS countries – Brazil, Russia, India, China and South Africa — signed the agreement to launch the NDB in July 2014, and exactly a year after Chinese President Xi Jinping officially announced the creation of the AIIB.

A DOSE OF ‘HEALTHY’ COMPETITION

The China-led MDBs also bring competition to traditional banks and donors. But competition is “healthy” when administered in the right doses, as is the case with the AIIB and NDB. Competition can be beneficial for recipient countries with a pipeline of infrastructure projects awaiting financing. Ultimately, development banks have a clear remit: to support the development needs of emerging markets and developing countries. If this is the goal, then traditional development banks ought to be unafraid of their younger counterparts — especially given huge infrastructure needs that cannot be met by existing institutions. Indeed, the boom in infrastructure projects since the AIIB and NDB were launched suggests that “healthy” competition is already benefiting countries in need of building and upgrading their infrastructure.

An added benefit is the streamlining of the operational procedures in existing MDBs. The ADB and, especially, the World Bank have been accused of inefficiencies derived from their alleged bloated bureaucracy, stringent procedures or complacency. Younger institutions do not suffer from these problems. If anything, their thirst to secure clients and claim a seat at the development table might make them a bit too eager to approve new projects. For existing banks, this brings pressure to become more efficient. There are signs this is happening at the World Bank and ADB. The former, in particular, has launched painful and controversial reforms under President Jim Yong Kim aimed at cutting costs and making more funding available to clients.

“Healthy” competition is also beneficial to the new banks themselves. The AIIB and NDB have had to hit the ground running. They cannot show complacency and assume that developing countries will flock to them out of displeasure with the World Bank — and ADB — or out of shared values with China and other emerging economies. Governments in developing countries want financing to support development and are ultimately accountable to their own population — not to Beijing. This means that it is becoming increasingly difficult for them to disregard their own domestic population’s legitimate concerns about the social and environmental impact of some projects. The fact that the new development banks are collaborating with their traditional counterparts and for the most part following established international practices and standards related to debt management, procurement integrity and due diligence shows that “healthy” competition also affects them.

OPPORTUNITIES FOR REAL CO-OPERATION

Complementarity and functional co-operation between traditional and non-traditional development banks is really a no-brainer. The decentralization and fragmentation of global governance — at least in this area — is to a large extent driven by functional differentiation due to the increasing complexity of policy domains. In other words, new institutions are being created because development needs are growing ever more complex. It is necessary to attend to structural reforms and social development needs, and the World Bank and ADB have decades of experience in this. But building hard infrastructure cannot be considered a secondary task or, worse, neglected. The AIIB and NDB have thus far clearly focused on bridging this gap.

Table 1 above shows six concrete areas of potential functional co-operation between new and traditional development banks. They are based on MoUs that they have already signed with each other or with other partners such as the European Investment Bank or the European Bank for Reconstruction and Development. These go beyond vague statements about the need to co-operate that governments and the institutions often make.
The negative perception of the emerging development bank architecture is wrong, at least in the case of Asia and with regard to the China-led institutions. For one, the financing needs of developing Asia open up enough room for a host of institutions to co-exist. Furthermore, new and traditional MDBs are involved in a process of “healthy” competition beneficial to both.

Table 1 suggests that potential functional co-operation is actually more likely between the World Bank and NDB, and between the ADB, on one hand, and the AIIB and NDB, on the other. The agreements include five of the six areas covered in the earlier World Bank-ADB agreement. However, co-operation has hitherto been strongest between the AIIB and the World Bank. This is largely because project co-financing has so far spurred the greatest co-operation. As the AIIB and NDB become more experienced and since they have common countries of co-operation in Asia together with the World Bank and AIIB, functional co-operation in the other five areas will eventually emerge. Furthermore, the AIIB has developed countries such as South Korea, Singapore, Germany and Australia among its members. These countries are also part of the World Bank, leading them to push for co-operation with the AIIB. Plus, it seems that Beijing is prioritizing the World Bank precisely because of its broader membership — which has boosted the soft power and responsible stakeholder image of the Xi Jinping government.

Of the other areas of potential co-operation between new and traditional MDBs, collaboration in knowledge and information sharing is of crucial importance and is already happening. From an AIIB and NDB perspective, their staffs will build capacity as they learn from their counterparts in traditional banks. As for the World Bank and ADB, collaboration in this area will help to allay concerns about the transparency, governance and accountability of the new banks. Knowledge and information sharing will also result in better information about the needs and changes in client countries, as all institutions gather information on the ground and elsewhere.

Co-operation should also result from eventual OECD Development Assistance Committee (DAC) membership. The World Bank belongs to this donor co-ordination framework, which results in the adoption of existing international standards and best practices. The AIIB and NDB are likely to come under pressure to adopt these standards and eventually join DAC. The former is to an extent already happening, as mentioned above. The latter might be more problematic due to accusations of the OECD’s pro-Western bias. Only two of its members come from elsewhere — South Korea and Japan. However, a compromise could be found in the AIIB and NDB becoming observers at DAC meetings, like the IMF, UNDP, ADB and other regional development banks. This would be in the interests of both traditional donors represented in DAC and new development banks seeking legitimacy.

PARTNERS, NOT ADVERSARIES?
The decentralization of global financial governance in general and the MDB network in particular has been portrayed as a threat to traditional institutions. Fragmentation, the argument goes, results in forum-shopping and arbitrage. This leads to contested multilateralism, with existing institutions having to engage in competition with their younger counterparts. Displeasure with traditional development banks accelerates this process, since it is the main reason why these new counterparties have been launched.

I argue that this negative perception of the emerging development bank architecture is wrong, at least in the case of Asia and with regard to the China-led institutions. For one, the financing needs of developing Asia open up enough room for a host of institutions to co-exist. Furthermore, new and traditional MDBs are involved in a process of “healthy” competition beneficial to both. There is also plenty of opportunities for functional co-operation in a range of areas between the two sets of institutions. The AIIB, in particular, has taken advantage of this and is co-financing projects with the World Bank and ADB. This proves that new and existing banks can have a friendly relationship based on co-operation and mutual support. Unlike in trade architecture, where regional trading agreements could undermine the centrality of the World Trade Organization's rules, and financial architecture, where regional safety nets could compete with the IMF, in the development architecture the World Bank and the ADB do not face a threat from the new institutions.

Going forward, the traditional and non-traditional MDBs should, as in the past, seek to further enhance the beneficial impacts of “healthy” competition and functional co-operation among themselves while minimizing the costs of “unhealthy” competition or a race to the bottom. Global oversight bodies such as the G-20 and the OECD could help in promoting such competition within a collaborative framework. In 2011, the G-20 issued a number of principles for co-operation between the IMF and regional financing arrangements. Similar principles for co-operation between traditional and non-traditional MDBs could also be useful.

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