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## **Multilateral Development Banks as Instruments of EU–Asian Relations**

### **Abstract**

*In January 2016, the People’s Republic of China became the 65<sup>th</sup> member country of the European Bank for Reconstruction and Development: a multinational financial institution created by the European Union and the European Investment Bank “to promote entrepreneurship and change lives” across the Mediterranean region, Southern, Central and Eastern Europe, the Caucasus and Central Asia. Perhaps Chinese involvement in this European institution could be considered a surprising development, until we realize both the Asian Development Bank and the Asian Infrastructure Investment Bank, which are generally seen as the major players, are constituted of over a dozen EU members. This complexity of relations is also evident throughout the rest of the multilateral development banks active in Asia.*

*The aim of the article is to test the hypothesis that the cooperation between multilateral development banks not only provides the opportunity for the funding of various investment projects crucial to the world economy, but can also facilitate the achievement of the individual political goals of their members.*

*The text offers a brief comparative analysis of the multilateral development banks that operate and interact in Asia, presenting the common ground for their financial cooperation, while attempting to identify ways of avoiding serious conflicts of interest. The real test of this hypothesis must take into account the political context in which these interactions take place.*

**Keywords:** *Multilateral development banks; Asian Development Bank – ADB; Asian Infrastructure Investment Bank – AIIB; European Bank for Reconstruction and Development – EBRD; Asia; financial cooperation; social and economic development; EU–Asian relations*

## 1. Introduction

The second half of the last century witnessed a proliferation of multilateral financial institutions. This trend dates back to 1944, when the international community decided, during the Bretton Woods Conference, to establish the International Bank for Reconstruction and Development (IBRD), more commonly referred to as the World Bank, along with its fellow institution – the International Monetary Fund (IMF). IBRD's central mission was the reconstruction of national economies damaged by the war, and the renewal of global economic relations in such a way as to prevent the recurrence of the economic circumstances that led to the great depression, while at the same time safeguarding its main sponsors' interests. With the passage of time, these aims expanded to include the tackling of social and economic problems, and a strengthening of cooperation between various nations operating in the globalized economy, which led, indirectly, to significant improvements in international peace and security.

For good or ill, the IBRD has become the blueprint for a whole network of regional development banks which has grown around the world.

Investopedia defines a Multilateral Development Bank (MDB) as a type of financial institution "that provides financing for national development. The bank is formed by a group of countries, consisting of both donor and borrowing nations. Furthermore, an MDB offers financial advice regarding development projects." A more advanced definition from the EIB's webpage states that "MDBs, are supranational institutions set up by sovereign states, which are their shareholders. Their remits reflect the development aid and cooperation policies established by these states. They have the common task of fostering economic and social progress in developing countries by financing projects, supporting investment and generating capital. MDBs also play a major role on the international capital markets by annually raising the large volume of funds required to finance their loans" (European Investment Bank 2017). We could add that MDBs also facilitate intergovernmental negotiations, provide policy advice, and up to date statistical data.

What is the importance of multilateral development banks in the enhancement of Asian-European relations? They play a crucial role for middle income countries, especially those which are becoming less dependent on development assistance. These financial institutions can act as a sort of "bridge," assisting countries in their journey from relying on financial grants, and other preferential capital transfers offered by official donors

like the EU, to their goal of a fully commercial relationship with private financial institutions. MDB services help to stabilize the macroeconomic situation in a recipient country, while at the same time contributing to improvements in the quality of life of citizens. So, we can see how MDBs' credit supports regional economic relations and, to a certain extent, contributes to finding solutions to global problems.

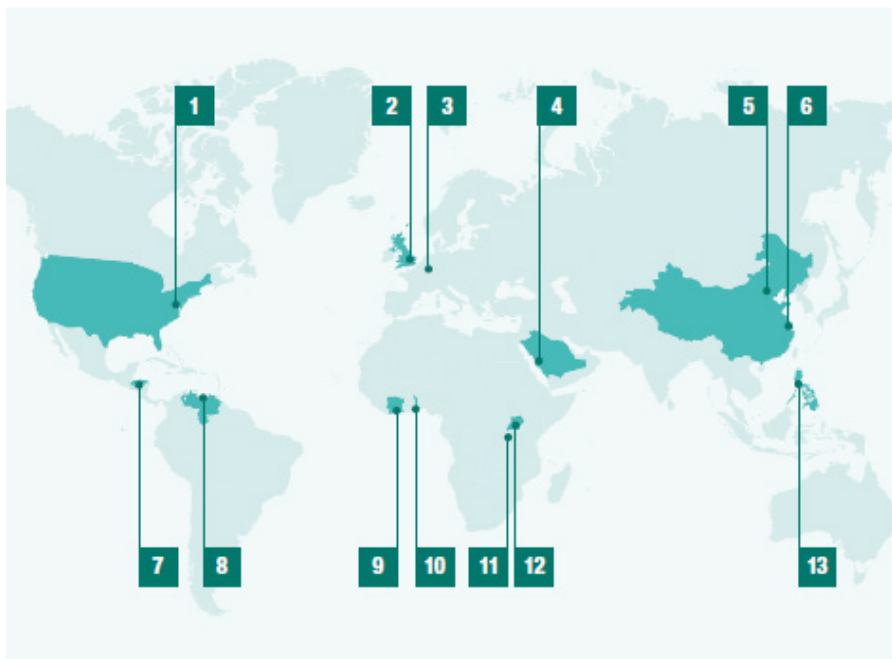


Chart 1. Multilateral Development Bank headquarters

\* 1. International Development Association (IDA), International Bank for Reconstruction and Development (IBRD) and Inter-American Development Bank (IADB); 2. European Bank for Reconstruction and Development (EBRD); 3. European Investment Bank (EIB); 4. Islamic Development Bank (IsDB); 5. Asian Infrastructure Investment Bank (AIIB); 6. New Development Bank (NDB); 7. Central American Bank for Economic Integration (CABEI); 8. Development Bank of Latin America; 9. African Development Bank (AfDB), African Development Fund (AfDF); 10. West Africa Development Bank; 11. Eastern and Southern African Trade and Development Bank, or Preferential Trade Area Bank; 12. East African Development Bank; 13. Asian Development Bank (ADB), Asian Development Fund (ADF).

Source: Faure, Prizzon, Rogerson 2015, p. 4.

Why do development banks matter for Asian economies? Any Asian developing country wanting to increase its share in the world economy

needs to invest heavily in its infrastructure. Development banks provide the necessary capital to fund these hugely expensive construction projects. As can be seen in the chart below (Chart 2), there has been a clear and vast increase in Asian low and medium income countries' share of global GDP: from 8.8% in 2001 to 24% in 2015. This impressive leap was mainly due to the economic success of East Asia. In order to maintain this level of growth, a corresponding level of infrastructure investment needs to be secured.

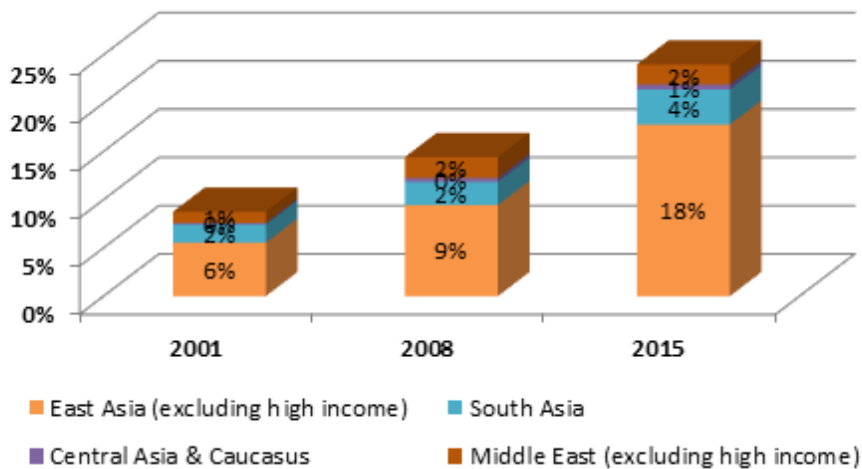
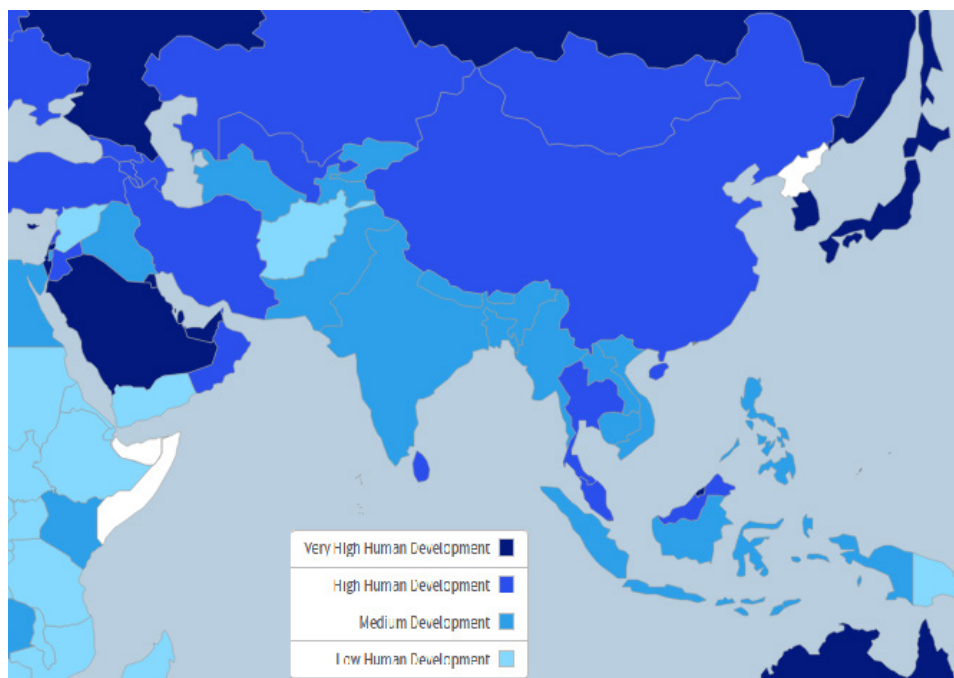


Chart 2. Asian low and medium income countries' share in global GDP (gross world product)

Source: Based on World Bank Group 2017a.

Despite many social and economic successes, the Millennium Development Goals (MDGs), set in 2001, were not achieved – there are still 13 of the Least Developed Countries in the Asia-Pacific region (Afghanistan, Bangladesh, Bhutan, Kiribati, Laos, Maldives, Myanmar, Solomon Islands, Timor-Leste, Tuvalu, Vanuatu, and Yemen), for whom the achievement of the MDGs has remained a distant dream. The regional HDI scores (0.621 for South Asia, 0.687 for Arab States and 0.720 for East Asia and Pacific; where 0.001 is the minimum and 1.000 is the maximum HDI value) make it abundantly clear that there's still plenty of room for improvement among Asian and Pacific nations, with many countries still being categorized as middle (20) or low (5) on the human development index (United Nations Development Programme 2016, pp. 198–201).



**Chart 3. Asian countries and the Human Development Index**

Source: United Nations Development Programme 2017.

Nowadays, there are at least eight multilateral development banks operating in Asia: the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB), the New Development Bank (NDB, known under its unofficial name, the BRICS Development Bank), the Islamic Development Bank (IsDB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Eurasian Development Bank, and the World Bank Group (the IBRD and the International Development Association).

I limited the scope of my analysis to those MDBs whose missions allow the financing of projects specifically designed to benefit EU–Asian relations: the Asian Development Bank, the Asian Infrastructure Investment Bank and the European Bank for Reconstruction and Development.

We need to consider such questions as:

1. What are the similarities and/or differences in terms of experience, modus operandi, financial assets, organizational structures and governance of the MDBs under scrutiny?

2. What is the nature and scope of cooperation between the ADB, the AIIB and the EBRD? What are the areas of mutual benefit as a result of this cooperation?

3. What are the possible political agendas behind multilateral financial cooperation?

4. Can multilateral development banks be perceived as typical economic instruments of foreign policy?

5. What further steps could be taken by MDBs and/or their shareholders to advance EU–Asian relations?

The aim of this article is to test the hypothesis that cooperation between multilateral development banks not only provides the opportunity for the funding of various investment projects important to the world economy, but also facilitates the achievement of the individual political goals of their members.

## 2. Comparative Analysis

To determine an individual bank's effectiveness in strengthening EU–Asian relations we need to develop a thorough understanding of its nature and structure.

The Asian Development Bank is clearly the most experienced and the biggest MDB being considered in this analysis. It was established with great financial support from the United States (US) and Japan in the 1960s as a regional equivalent of the International Bank for Reconstruction and Development. Next in terms of experience, the European Bank for Reconstruction and Development was founded in the early 1990s to facilitate pro-market reforms after the collapse of the Eastern bloc. "The new kid on the block," the Asian Infrastructure Investment Bank, only opened for business in 2016 (relevant sources and detailed information relating to these banks can be found in Table 1 below).

Unlike the IBRD or the IMF, none of the above international organizations could be classified as truly global, but in terms of membership they all extend beyond a single region. The ADB constitutes 67 member countries: 48 of them are from Asia-Pacific, including Japan, the People's Republic of China (PRC) and Taiwan, and the Republic of Korea (ROK), while 19 are from outside of the region, including 14 EU members (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, The Netherlands, Portugal, Spain, Sweden, the United Kingdom). The AIIB consists of 56 coun-

tries: 37 regional members and 19 non-regional, including 14 EU members (Austria, Denmark, Finland, France, Germany, Hungary, Italy, Luxembourg, Malta, Netherlands, Poland, Portugal, Sweden, the United Kingdom). This leads us onto the third bank under consideration, the EBRD. There are 67 members of the EBRD: the EU, as a legal entity, and all 28 EU members, the EIB, 14 other European countries, and 23 non-regional actors, including 17 states from the broader Asia-Pacific region (Armenia, Australia, Azerbaijan, PRC, Georgia, Israel, Japan, Jordan, Kazakhstan, ROK, Kyrgyz Republic, Mongolia, New Zealand, Tajikistan, Turkey, Turkmenistan, and Uzbekistan).

The analysis shows that not all EU shareholders of the ADB (i.e. Belgium, Ireland, and Spain) have decided to extend their Asian engagement into the AIIB, however they are identified by the Bank as prospective members. On the other hand, the AIIB has attracted few EU countries (Hungary, Malta, Poland) that are not ADB stakeholders. Only 11 (Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Greece, Latvia, Lithuania, Romania, Slovakia, Slovenia) out of 28 EU members do not belong to either of these two institutions. This group of relatively small economies could further shrink in the next years as Cyprus, Greece, and Romania are officially considered as prospective members of the AIIB. The general picture is that the majority of EU members have decided it is in their interest to take the options offered by both ADB and AIIB, and thanks to this, continue to strengthen European influence in the Asia-Pacific region. In contrast, neither the US nor Japan have decided to join the AIIB, suggesting the new institution is perceived as a rival to the IBRD and ADB. A more neutral, and accurate analysis might describe this new bank as a counterbalance or even reliable partner for the two other MDBs. It could be argued that Washington and Tokyo's absence leaves a healthy space for improved Sino-European cooperation on further infrastructure, social and economic projects.

As the institutions' names suggest, two of the MDBs under scrutiny have their headquarters in Asia and one in Europe, which could potentially affect staff perspectives on various economic issues, priorities and geographical interests. London and Shanghai, being world financial centres, are obvious choices for important economic institutions, but Manila might seem a less natural location for some readers. The designation of the capital of the Philippines as ADB's main office was a Japanese concession to other Asian nations, designed to demonstrate the Bank's independence from Japanese foreign policy and ADB's proximity to the problems of its borrowers. By "coincidence," this move also strengthened the Philippines relationship with its traditional ally, the US.



The structure of governance, based on the blueprint set out by the IBRD, is shared by all three MDBs. Each bank has a board of governors with representatives of all member countries, and a board of directors, a narrower body to which officials are elected by groups of states – sometimes referred to as constituencies – and/or directly nominated by the bank's most influential shareholders. The next level of each bank's administration consists of senior management (presidents, and a few vice-presidents, supported by other executive figures). This shared structure in decision making processes in our three MDBs makes communication and cooperation between them straightforward and relatively easy to implement.

Unsurprisingly, our three MDBs share more with the IBRD than its structural features. Our three banks and the World Bank also differ from standard international organizations, like the United Nations, in their voting systems. The influence of a particular member country on any decision making process in these MDBs is not based on the one state one vote model, but depends on the number of shares it has. Among the ADB's top ten shareholders we find seven regional states, including Australia, and just one from the EU. In the case of the AIIB, a similar list contains seven regional actors, including Australia and Russia, and three EU stakeholders. This stands in clear contrast with the EBRD, which has only two countries from Asia, including Russia, five EU member states and one European institution constituting its list of top 10 shareholders. The statistical data on voting power shows the clear advantage of the US and Japan in the ADB, while Asian BRICS members (Brazil and South Africa still have not finalized their accessions to the Bank and are categorized as prospective members) dominate the AIIB. The EBRD's voting system favours six of the G7 countries.

The existing disparities in voting power between various groups of countries within the ADB, AIIB and EBRD are worth further elaboration. For this purpose we can divide all countries involved into six categories:

- 1) the EU (member states and institutions),
- 2) BRICS countries present in a particular bank,
- 3) the US and Japan,
- 4) non-EU European countries,
- 5) Australia, Canada, New Zealand, ROK, and Turkey (a group of five relatively large, pro-Western economies capable of tipping the political balance when forming voting coalitions),
- 6) other economies.



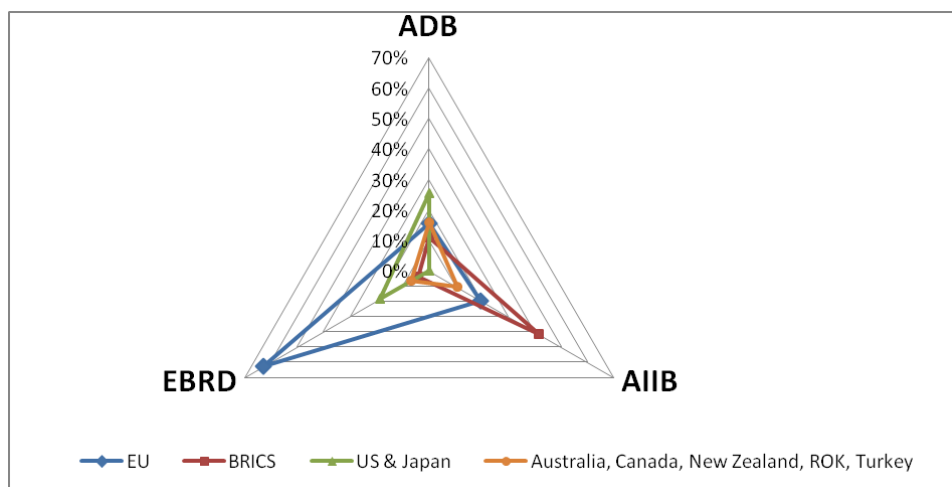
**Table 1. Basic information on the ADB, AIIB, and EBRD**

	ADB	AIIB	EBRD
<b>Established</b>	1966	2016	1991
<b>Headquarters</b>	Manila	Shanghai	London
<b>Membership</b>	67 countries (48 regional and 19 non-regional – including <u>14 EU members</u> , two non-EU European states, two entities from North America, and one country from Western Asia)	56 members (37 regional, 19 non-regional – including <u>14 EU countries</u> , three non-EU European states, two African countries)	65 countries (28 EU members, 14 other European countries, <u>17 from Asia and Pacific region</u> , 3 from North America and 3 from Africa) plus the EU and the EIB
<b>Staff</b>	More than 3000 professionals	More than 3000 professionals	Lean group of 79 professionals (recruitment is still taking place) from 24 countries
<b>Governance structure</b>	Board of Governors (67 seats), Board of Directors (12 officials) and Senior Management (President and 6 Vice-Presidents)	Board of Governors (53 seats), Board of Directors (12 officials) and Senior Management (President, 5 Vice-Presidents and others)	Board of Governors (67 seats), Board of Directors (23 officials) and Executive Committee (President, 6 Vice-Presidents and others)
<b>Top-10 main shareholders (% of voting power)</b>	1. Japan (12.78%), 2. United States (12.78%), 3. PRC (5.45%), 4. India (5.36%), 5. Australia (4.93%), 6. Indonesia (4.66%), 7. Canada (4.48%), 8. ROK (4.33%), 9. Germany (3.76%), 10. Malaysia (2.48%).	1. China (27.52%), 2. India (7.93%), 3. Russia (6.25%), 4. Germany (4.37%), 5. Korea (3.69%), 6. Australia (3.65%), 7. France (3.36%), 8. Indonesia (3.34%), 9. United Kingdom (3.06%), 10. Turkey (2.66%).	1. United States (10.11%), 2. France (8.61%), 3. Germany (8.61%), 4. Italy (8.61%), 5. Japan (8.61%), 6. United Kingdom (8.61%), 7. Russia (4.04%), 8. Canada (3.44%), 9. Spain (3.44%), 10. European Investment Bank (3.03%).
<b>Perception</b>	An instrument of US-Japanese influence over Asia	Dominated by Asian members of the BRICS / initially presented as a rival (counterbalance) to the IBRD and ADB	Western financial institution established to stimulate the transitional processes of the EU's peripheries and/or close environment

Source: based on Asian Development Bank 2017a, p. 44; Asian Development Bank 2017b; Asian Development Bank 2017c; Asian Infrastructure Investment Bank 2017a; Asian Infrastructure Investment Bank 2016a, pp. 8–12; Asian Infrastructure Investment Bank 2017b; European Bank for Reconstruction and Development 2017a; European Bank for Reconstruction and Development 2017b; European Bank for Reconstruction and Development 2017c, p. 53.

As Chart 4 demonstrates, the US & Japan have almost 26% voting power at the **ADB** between them, followed by Australia, Canada, New Zealand, ROK, and Turkey with a combined share of 16%. EU shareholders also share around 16%, BRICS with 11%, non-EU European countries with 1%, the remaining 32% being shared by the other forty two economies involved. Even though the BRICS are the leading shareholder group within the **AIIB** with just under 42% of voting power, this is still not enough to allow them to take a decision without forming broader coalitions. The EU members wield around 20% of control over the bank, compared with less than 11% by Australia, Canada, New Zealand, ROK, and Turkey combined, and 2% by non-EU European countries. The remaining 26% of voting power is spread across thirty two other entities (excluding the US and Japan, as stated earlier). When we come to the voting share within the third bank under consideration, the **EBRD**, we see that the EU countries and institutions have managed to secure a 63% share of voting power. It must be understood, however, that this EU voting power is not monolithic in its nature, requiring significant negotiations within the EU group to achieve any sort of common stance on the bank's activities, something that may be easier said than done, in light of the current state of the EU: Brexit, migration issues, etc. Other important, but minor stakeholders, can be divided into four categories: the US and Japan (19% combined), Australia, Canada, ROK, New Zealand, and Turkey (less than 7% combined), non-EU European countries (almost 6%) and other economies, including China (less than 2%).

The consideration of voting powers within MDBs raises the question of balance, or perhaps imbalance to be precise, between regional and non-regional actors, as well as the asymmetry between borrowing and lending members. In its message to investors and rating agencies (Asian Development Bank 2016a, p. 8, 54; Asian Development Bank 2017d, pp. 15–16) the ADB praises the fact that the vast majority (66.8%) of its shares are in the hands of non-borrowing nations. This business-friendly and financially responsible model looks a little less appealing from the perspective of Asian developing countries. ADB's regional borrowing shareholders only have 38.5% of voting power. This should be considered against the 26.6% voting share of regional non-borrowing members and the 34.9% share of ADB's non-regional non-borrowing members (calculations based on Asian Development Bank 2017e, Asian Development Bank 2017c).



**Chart 4. The comparison of voting powers within the ADB, AIIB and EBRD**

Source: own calculations based on Asian Development Bank 2017c; Asian Infrastructure Investment Bank 2017a; European Bank for Reconstruction and Development 2017a.

While the EBRD do not set a formal division between shareholders that can use the bank's credit and those who cannot, in practice the whole mechanism works pretty much the same as in the case of the imbalance seen within the ADB or, perhaps, shows an even deeper disparity in power and rights between its shareholders. EBRD's countries of operations (i.e. borrowing nations) voting power equals just 14.4%. In contrast to the Bank's European sponsors who enjoy 60.5% of voting power, the remaining 25.1% is controlled by EBRD's external actors: non-European countries not eligible for the institution's credit (calculations based on European Bank for Reconstruction and Development 2017d; European Bank for Reconstruction and Development 2017a; European Bank for Reconstruction and Development 2017e, p. 7; European Bank for Reconstruction and Development 2017f, pp. 2–3). The ambition of AIIB's architects was to counter the trend of local borrowers feeling alienated by existing MDBs' style of governance, while at the same time encouraging developed countries and emerging economies from all over the world to join the Bank. This ambition can be clearly seen in Article 11.1.a of AIIB's Articles of Agreement (Asian Infrastructure Investment Bank 2015): "The Bank may provide or facilitate financing to any member,

or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the region.” So, at least formally, all members, no matter whether from Asia or elsewhere, are considered potential borrowing nations. Non-regional members have only 22.7% of AIIB’s voting power, with the remaining 77.3% being distributed among regional actors. We can therefore anticipate that the combined voting power of the block of Asian-Pacific countries actively seeking AIIB credit will be around 62%, while the block from outside the region seeking credit constitutes a mere 3% of voting power. It goes without saying that highly developed stakeholders will not be seeking credit from the Bank, but have sought involvement in the Bank’s activities for other political and economic ends. This comparison of the AIIB and the two other financial institutions under consideration shows substantial differences in their governance which allow the AIIB to better represent its member countries of the global South (calculations based on Asian Infrastructure Investment Bank 2017a).

Clear similarities between all three MDBs under analysis can be found in their mission statements, focus areas, and forms of assistance offered (relevant comparative information, statistics and sources can be found in Table 2 below).

Their stated goals do not go beyond the classical “fostering economic and social progress in developing countries” as was stated in the EIB’s definition. However, we can identify some features which characterize the focus of each individual institution:

- ADB – Poverty reduction. A huge problem 50 years ago, and although much reduced, still at unacceptably high levels;
- AIIB – Infrastructure development. Crucial for long term economic growth based on international trade and regional cooperation;
- EBRD – Market reforms. Promoting further economic relations with the West.

While the main focus areas of our three MDBs are not identical, they do overlap in at least four aspects: 1) infrastructure development, 2) environmental protection, 3) stimulation of financial sectors and closer public–private investment cooperation, 4) strengthening of regional economic ties with transport and communication projects playing a crucial role. This provides scope for a wide range of possible joint initiatives, benefi-

cial to the strategic goals of each bank. At the same time, perhaps more importantly, it also enhances the general wellbeing of recipient nations. These existing overlaps are open to further development and extension as projects move forward, allowing each bank to see the virtue of further cooperation and activities of mutual interest.

The classic MDB *modus operandi* is based on offering credit rather than grants (although, banks sometimes set up special funds providing preferential transfers, being classified as development aid). At the time of writing, all of AIIB's services are in the form of loans (other forms of assistance are still to be implemented). While the two older banks under consideration do provide other services, the vast majority of their products are also provided in the form of loans.

Other obvious differences between the ADB, AIIB and EBRD can be identified in terms of capital stock, levels of financial activity and geographical priorities.

While the level of subscribed capital gives a clearer picture of a particular MDB's potential economic power, its actual volume of credit, and other spending, measure the value of its real activity. Clearly, both issues are related, but are not necessarily linked in an absolutely proportional way. For example, one of the ADB's financial rules limits "gross outstanding borrowings to no more than the sum of callable capital of non-borrowing members, paid-in capital, and reserves (including surplus)" (Asian Development Bank 2017d, p. 16).

In 2016 the ADB had a subscribed capital exceeding USD 140 billion. It offered almost USD 32 billion in assistance to its borrowers. Despite having less than 25% of the subscribed capital of its larger counterpart, the EBRD financed projects worth around USD 10.5 billion over the same period. Finally, the AIIB finished its first year of operations with USD 90.33 billion of subscribed capital (it had further increased to USD 92.99 billion, as of July 26, 2017, due to new members subscriptions), but contributed only USD 1.73 billion to 9 approved projects. This should be considered against the backdrop of the ongoing development of business relationships and capacity building within the AIIB. Within the next few years we should expect a dynamic increase in the Bank's financial activity (from the beginning of January to the end of July 2017, the institution contracted 8 projects with total input of around USD 1.1 billion). It is worth noting that more than 50 years of experience has resulted in the ADB accumulating diversified assets and gaining substantial market

trust, which has allowed the Bank to build an impressive portfolio of investments with the ratio of paid in capital to subscribed capital being just around 5%. This should be compared with AIIB and EBRD having this proportion at the level of 20%.

Table 2. The activities of ADB, AIIB and EBRD

	ADB	AIIB	EBRD
Mission	“to help developing member countries reduce poverty and improve the quality of life of their people” by providing loans, technical assistance and grants.	“to address the daunting infrastructure needs across Asia” and therefore “help stimulate growth and improve access to basic services.”	“fostering the transition to market economies, whilst promoting innovation, growth and transparency.”
Subscribed capital stock (as of 31 <sup>st</sup> December 2016)	USD 142.70 billion	USD 90.33 billion USD	EUR 29.7 billion (= USD 32.98 billion)
Focus areas	1. Infrastructure (water, energy, transport, urban development, information and communications technology), 2. Environment, 3. Regional cooperation and integration, 4. Finance sector development, 5. Education.	1. Sustainable Infrastructure, 2. Crosscountry Connectivity (ranging from roads and rail, to ports, energy pipelines and telecoms, maritime routes) 3. Private Capital Mobilization (Public-Private Partnership).	1. Green economy (including green transport, municipal infrastructure, agribusiness, power and energy sector), 2. Small firms, 3. Local currency and capital market development (promotion of cross border investment and trade), 4. Growth in economies at an earlier stage of the transition process, 5. Promotion of gender equality and economic inclusion.
Financial activity in 2016	USD 31.7 billion	9 projects approved totaling USD 1.73 billion	EUR 9.39 billion (= USD 10.43 billion)
Forms of assistance	Mainly loans, co-financing, guarantees, grants (USD 527 M) and technical assistance (USD 180 M)	So far only loans, but guarantees and technical assistance are also possible	Loans, equity investments and guarantees, but also policy dialogue and technical assistance

	ADB	AIIB	EBRD
<b>Geographical priorities</b> (based on 2016 disbursements)	Recipients (not including technical assistance & co-financing): India (17%), PRC (12%), <u>Azerbaijan</u> (10%), <u>Indonesia</u> (10%), <u>Pakistan</u> (9%), <u>Bangladesh</u> (6%), Philippines (5%), Vietnam (4%), others (26%).	Projects approved in 2016 (chronological order): 1. Tajikistan (\$27.5 M) 2. <u>Bangladesh</u> (\$165 M) 3. <u>Pakistan</u> (\$100 M), 4. <u>Indonesia</u> (\$216.5 M), 5. <u>Pakistan</u> (\$300 M), 6. Myanmar (\$20 M), 7. Oman (\$36 M), 8. Oman (\$265 M), 9. <u>Azerbaijan</u> (\$600 M).	Various central, eastern and southern European states (€3.49 billion), Central Asia (€1.4 billion), Eastern Europe and the Caucasus (€1.2 billion), Southern and Eastern Mediterranean (€1.4 billion), Turkey (€1.9 billion).

Source: based on Asian Development Bank 2017f; Asian Development Bank 2017a, pp. 2, 6–7, 9–15; Asian Infrastructure Investment Bank 2017c; Asian Infrastructure Investment Bank 2017a; Asian Infrastructure Investment Bank 2016a, p. 30; Asian Infrastructure Investment Bank 2016b; Asian Infrastructure Investment Bank 2017d, pp. 3–4; Asian Infrastructure Investment Bank 2017e; European Bank for Reconstruction and Development 2017g; European Bank for Reconstruction and Development 2017a; European Bank for Reconstruction and Development 2017c, pp. 2–8, 4, 30–41.

The geographical distribution of financial streams shows what the real priorities of our three MDBs are. The main recipients of ADB credit are relatively large emerging economies from East Asia, South Asia and Southeast Asia. Only seven states benefited from the AIIB's projects in 2016. They were located in Central Asia, South Asia, Southeast Asia, and Western Asia (the pattern for early 2017 transfers is the same with a strong presence of India – 3 ventures, and Indonesia – 2 ventures). The EBRD fulfils its mission supporting various projects in an area ranging from Central Europe and the Baltic states in the northeast, to Central Asia and part of the Mediterranean in the southeast, with Turkey currently being the major single recipient (over 20% of 2016 flows).

Central to the thesis of this paper is the fact that in 2016 43% of EBRD's investments went to Asia, with the biggest recipients being: Turkey (EUR 1.93 billion), Kazakhstan (EUR 1.05 billion), Jordan (EUR 0.4 billion), Georgia (EUR 0.25 billion), Mongolia (EUR 0.15 billion), and Kyrgyz Republic (EUR 0.11 billion). Despite noticeable differences in geographical distribution of bank credits, some overlaps, especially between ADB and AIIB, can be seen. Both institutions invest relatively heavily in Bangladesh, India, Indonesia, Pakistan, and, quite surprisingly, Azerbaijan – a country in



close proximity to the EU and its geopolitical interests (member of Eastern Partnership initiative), but somehow neglected by the EBRD. The investment schemes of the ADB and EBRD suggest that both institutions have consciously worked to avoid duplication of each other's efforts designed to meet the needs of their borrowers while at the same time protecting the interests of their investors. From a more critical perspective, we could say both banks have created separate spheres of influence (i.e. areas of great importance to their main shareholders, related to their economic and geopolitical interests). Though not being of central importance, Central Asia and the Caucasus, are where the activities of our MDBs coincide. The AIIB's broadening its region of operations (i.e. the inclusion of Western Asia) could potentially be used to bridge the activities of the other two banks, creating more space for further joint initiatives.

All three MDBs share the same *modus operandi* as well as model of governance and organization. Any differences, in terms of experience, geographical preferences, financial assets, and disbursements which do exist, do not represent systemic stumbling blocks, which would make ADB–AIIB–EBRD cooperation impossible. The geographical interests of these banks converge across broad areas: first, the Indian Ocean basin (ADB and AIIB. Out of operational area for EBRD) and secondly, Central Asia and the Caucasus (operational area of all three institutions). These are important parts of Asian-European trade routes, which explains the strong EU involvement in the described MDBs. The number of stakeholders involved shows how the three named banks are parts of a large and complex (multidimensional) net of international relations system that extends far beyond a single region. The political will of its main stakeholders, and perhaps some additional capital, could invigorate these instruments, allowing them to better support the wellbeing of recipient nations across Asia. Used wisely, the operation of these banks can simultaneously further their main sponsors' interests, both politically and economically.

### **3. Common Interests, Visions and Projects**

A number of formal bilateral agreements already exist between the three MDBs under consideration:

1. ADB–EBRD Memorandum of Understanding of 2011. This agreement relates to cooperation on energy projects across the Caucasus and Central Asia and was an update to the previous agreement signed in 1993;

2. ADB–AIIB Memorandum of Understanding of 2016, involving the financing of joint infrastructure projects (especially roads and water transport), high-level consultations and joint data collection, strengthening efforts to promote sustainable growth, reduction of poverty, and combating climate change;

3. AIIB–EBRD Memorandum of Understanding of 2016, through which parties will actively seek co-financing opportunities, regular senior management dialogue, exchange of information on policies and strategies related to activities in common areas of operation, promotion of secondments and joint staff training.

These already existing legal relationships set the grounds for further joint activities of common interest. Despite the initial skepticism of the US and Japan, the AIIB has proven to be a welcome addition to the sphere of international economic relations. The AIIB's signing of memoranda of understanding in its first months of operation has sent a clear signal of their willingness to adhere to generally accepted environmental and social standards (Rosen 2011; Asian Development Bank 2011; Asian Development Bank 2016b; European Bank for Reconstruction and Development, Asian Infrastructure Investment Bank 2016; Asian Development Bank 2017g, p. 7).

Ongoing projects which put flesh on the bones of these legal frameworks can be seen in the following three categories:

1. ADB–EBRD joint projects

- In 2012 the ADB and EBRD cooperated on the *CAREC Corridor 3 (Shymkent–Tashkent Section)* in Kazakhstan. Their contributions were USD 125 M and USD 196.5 M respectively;

- In 2014 they co-sponsored the *Power Transmission Rehabilitation* project in Armenia – USD 37 M coming from the ADB, and USD 30 M from the EBRD;

- Also, broader, non-concessional cooperation with other financial institutions and the private sector should be included – i.e. loans for Georgia in 2015, when USD 90 M was provided from each bank to finance the Shuakhevi hydropower plant, and Azerbaijan, also in 2015, which received USD 250 M from each bank for their offshore natural gas field project *Shah Deniz stage II*;

2. ADB–AIIB joint projects

- In 2016, the Pakistan *National Motorway M-4 Gojra–Shorkot–Khanewal Section* received funding of USD 100 M from each of these two banks;

- *The Natural Gas Infrastructure and Efficiency Improvement* project in Bangladesh, accepted in 2016 and implemented in 2017, received USD 167 M from the ADB and USD 60 M from the AIIB.

### 3. AIIB–EBRD joint projects

- In 2016 the Tajikistan *Dushanbe–Uzbekistan Border Road Improvement Project* received USD 27.5 M from the AIIB and USD 62.5 M from the EBRD.

- Broader non-concessional cooperation between these two banks (as well as the World Bank, EIB and commercial borrowings) was achieved through loans to fund Azerbaijan's *Trans Anatolian Natural Gas Pipeline Project*. The AIIB's contribution being USD 600 M and USD 2.1 billion coming from the EIB and the EBRD partnership.

AIIB's relatively recent arrival on the scene can be seen as having had a surprisingly significant effect on existing multilateral financial relationships in the region. In the nineteen months after coming into operation, the AIIB has been able to claim a place among the big players in the game. It has had, and will undoubtedly continue to have, a catalytic effect on regional funding activities, breathing new life into what could be seen as having become a rather stagnant status quo (Asian Development Bank 2013, p. 66; Asian Development Bank 2015, Attachment 2, p. 1; European Bank for Reconstruction and Development 2015a; European Bank for Reconstruction and Development 2015b; Asian Development Bank 2017g, pp. 29, 31; Asian Infrastructure Investment Bank 2017f; Asian Infrastructure Investment Bank 2017g; Asian Infrastructure Investment Bank 2017h; Asian Infrastructure Investment Bank 2017i).

The joint ventures described so far in this paper are obviously not the only ways in which funds are committed to various Asian development projects. The multilateral nature of the banks under our lens does not restrict their cooperation to working with other MDBs. Often, an MDB will work together with individual nation states and/or other entities to achieve their mutual objectives. For example, between 2011 and 2016, 98 projects were funded through the cooperation of the ADB and its EU stakeholder nations (with little or no input from the EBRD and AIIB).

The low per project expenditures of Belgium, Finland, and, perhaps more surprisingly, Italy might be considered mere token gestures; important to further political relationships, yet relatively insignificant as a response to the real social and economic problems of the region. As can be seen from the table, the overwhelming majority of contributions to joint ADB – individual EU states projects came from the UK, France, and Germany.

**Table 3. ADB's co-finance with its EU members (2011–2016)**

Country	No of projects	ADB's contribution (USD M)	EU member state contribution (USD M)	Average European contribution over number of projects (USD M)
<b>Austria</b>	2	352.59	84.66	42.33
<b>Belgium</b>	6	1222.12	56.2	9.37
<b>Denmark</b>	3	384.44	231.05	77.02
<b>Finland</b>	3	185.5	35.7	11.9
<b>France</b>	29	5350.66	2902.39	100.08
<b>Germany</b>	14	4975.49	2770.06	197.86
<b>Italy</b>	2	127.51	9.82	4.91
<b>Netherlands</b>	8	1181.51	424.38	53.05
<b>United Kingdom</b>	31	4822.57	3176.23	102.46
	98	X*	9690.49	98.88

\* No total due to the possibility of single ADB contributions being duplicated in accounting for a number of projects.

Source: own calculations based on Asian Development Bank 2017h.

It is worth noting that Germany, France and the UK are also the three EU countries with the highest voting shares in the ADB with a 3.76%, a 2.16%, and a 1.93% share, respectively (fourth largest EU voting nation being Italy 1.74% share).

It is worth considering EU–Asian relations in a broader context than the joint ventures of our three MDBs. To do so, let us consider one of the largest development programs currently ongoing in Asia. The CAREC (Central Asian Regional Economic Cooperation) program, operating since 2001, is co-sponsored by the ADB, the EBRD, the IMF, the IsDB, the UNDP, and the IBRD. CAREC focuses on creating energy networks and transport corridors connecting member countries (Afghanistan, Azerbaijan, PRC, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan) and boosting the markets of East and South Asia, Europe, and Russia. While the clear economic importance of such a large multilateral initiative speaks for itself, its geopolitical importance should not be underestimated. The vast geographical area in which the CAREC program is being carried out is often thought of as an arena in which global powers compete for dominance. The expansion of

the program is undoubtedly seen as a huge success by all investors, as can be seen from CAREC's own website: "CAREC is a practical, project-based program that has grown from 6 projects worth \$247 million in 2001, to 166 projects worth \$27.7 billion in 2015." So, as of the time of writing, 261 projects have been completed and another 153 are still ongoing (Central Asia Regional Economic Cooperation Program 2017a). Despite the lack of formal participation of the AIIB in the program, the Bank's co-financing of transport projects (*Tajikistan: Dushanbe-Uzbekistan Border Road Improvement Project* and *National Motorway M-4 Gojra-Shorkot-Khanewal Section Project*) complements the CAREC initiative. Time will tell, whether this was a one-off cooperation, or a kind of feasibility test for all concerned, the success of which may eventually lead to AIIB's accession to the program. The huge sums involved in financing projects of such magnitude would be daunting to even the richest individual nation states, and explain why it has proven necessary to adopt a multilateral approach to such ventures (Rosen 2011; Asian Development Bank 2011; Central Asia Regional Economic Cooperation Program 2017b; Eurasian Business Briefing 2016).

Widening our perspective even further in our consideration of the role of MDBs in the global development landscape, we can take a look at the Third International Conference on Financing for Development, which took place in Addis Ababa in 2015. The conference was set up to establish a framework through which improvements could be made to the existing systems of cooperation by increasing capital flows, promoting further political engagement and working towards a consensus on how to achieve the 17 agreed Sustainable Development Goals. The conference welcomed "efforts by new development banks to develop safeguard systems in open consultation with stakeholders on the basis of established international standards, and encourage all development banks to establish or maintain social and environmental safeguards systems, including on human rights, gender equality and women's empowerment, that are transparent, effective, efficient and time-sensitive" (United Nations 2015, p. 35).

As part of the follow up process of the Addis Ababa conference, the Global Infrastructure Forum was born. The goal of the Forum is to broaden coordination and alignment between various financial institutions working together to close the global gap in infrastructure investment. This platform hopes to improve existing dialogue between the ADB, AIIB, EBRD, other development banks (the AfDB, EIB, IADB, IsDB, NDB, and the World Bank Group), and various United Nations agencies and pro-

grams. It supports “the infrastructure-related agendas of the G20, G-24, G-77 and G7+ by encouraging MDBs to take joint actions to demonstrate their commitment to infrastructure investment” (United Nations 2016; World Bank Group 2017b; European Bank for Reconstruction and Development 2016).

So, we have seen how our three banks continue to play their parts in the broader context of the world economy. Again, we must remind ourselves that these global economic relationships are not acted out in a political vacuum, as we will now move on to consider.

## 4. Political Context

The EU and its member states want to be perceived as global actors. This requires demonstrating individual members’ influence, both regionally, and within the world economy.

European engagement in Asia can also be seen as an attempt to counterbalance US/Japanese economic dominance in this part of the world. Contrary to Hollywood’s version of reality, the Western block should not always be understood as a monolith, and is, in fact, made up of individual nation states, whose competing economic and geopolitical interests sometimes become abundantly apparent. Using its substantial economic resources, the EU can be seen as increasing the competition between the major actors in the region, whilst, at the same time, providing alternative partnership possibilities to Asian countries.

“There is a direct connection between European prosperity and Asian security. In light of the economic weight that Asia represents for the EU – and vice versa – peace and stability in Asia are a prerequisite for our prosperity. We will deepen economic diplomacy and scale up our security role in Asia” (European Union 2016, p. 37).

The EU has shown its willingness to engage, through various means, including the activities of MDBs in which it invests, to gain political and economic influence in the region. As made clear in the quote above, there are several obvious areas in which EU and Asian nations’ interests overlap. These shared interests present good grounds for further fruitful cooperation.

The stated objectives and priorities of the EU Global Strategy (The Security of Our Union; State and Societal Resilience; An Integrated Approach to Conflicts; Cooperative Regional Orders; Global Governance for

the 21<sup>st</sup> Century) will obviously require significant funding. Among the players meeting this financial burden, our three MDBs can, and will, play an important role (European Union 2016, pp. 9, 22–23, 28, 31, 37–38, 40, 43). If we take energy insecurity as an example of potential bank focus, we can see, as in the cases of *Shah Deniz stage II* project, and *Trans Anatolian Natural Gas Pipeline Project*, it will be enormously beneficial to spread the burdens of cost and risk among all stakeholders. Perhaps less attractive, is the necessity of sharing the returns from such investments, but this multilateral approach is designed to yield much more than financial returns. Arguably, the trust and goodwill generated by this cooperative approach will enhance energy security in ways that money cannot buy.

As the EU Global Strategy explicitly states: “A more prosperous Union requires economic priorities to be set in relations with all countries and regions, and integrated into the external dimensions of all internal policies. A more prosperous Union calls for greater coordination between the EU and Member States, the EIB and the private sector. The Sustainable Development Goals also represent an opportunity to catalyze such coherence” (European Union 2016, p. 49). Our three banks will surely be welcomed at the table alongside the EIB to contribute their assets and experience to achieve stated EU objectives.

The relationship between the EU and Asia is not a one way street in which the more dominant partner has its needs met at the expense of its counterpart. It is essential that any MDB involvement contributes, as far as is possible, to the leveling of the playing field. The positive input of MDBs can be seen in four general areas:

- security,
- foreign policy supporting social and economic development,
- global profile,
- governance of international financial institutions.

In terms of security, growing economic interdependence makes international conflict less probable. By investing in infrastructure, physically integrating Asian states, and promoting mutual interests, MDBs facilitate the maintenance of regional peace and stability. Through the creation of decent jobs, export stimulation, and the sharing of new technologies, Asian nations can effect significant improvements to social security.

MDBs are one of the means by which borrowing nations can increase the prosperity of their own people through foreign assistance. Development banks should also be considered for the important role they play as instruments of economic diplomacy – their assets, combined with re-



sources offered by their main shareholders, can be used as leverage during negotiations and/or the decision making processes of other actors. These financial institutions provide an opportunity for additional, less official, diplomatic interactions, especially for those Asian member states who have representation in any particular bank's managerial hierarchy.

The role of any development bank goes beyond its economic function. Any government wishing to send a clear message of its intention to raise its profile on the world stage can achieve this by expressing its willingness to cooperate with local financial institutions on local projects offering additional capital to prove its commitment, not only to the wellbeing of local communities, but also to the ideal of global governance. This can be seen as having been achieved in the cases of PRC, India, Japan, and ROK deciding to join MDBs operating in Europe, Central Asia (EBRD), Africa (AfDB) or Latin America and the Caribbean (IADB).

All developing countries and emerging economies, including BRICS, are aware of the importance of increasing their influence in proportion to their growing economic power. In the context of financial institutions, this is achieved by acquiring additional shares to increase voting power. Quota reforms recently took place in the structure of the IBRD and IMF, the latter being controversially blocked for 5 years by the US Congress. The slow pace of this process is said to be one of the major contributing factors for the creation of the AIIB and the NDF. It is likely that further governance reforms, in favor of emerging economies, are going to be considered necessary in other MDBs, including the ADB and even, perhaps, the EBRD. This clearly political agenda of quota reform, along with the faltering of the WTO Doha Round negotiations, are two of the main political issues which continue to exacerbate the existing tensions between the global North and the South.

## 5. Conclusion

Multilateral Development Banks play an important role in modern international relations. Their financial input helps to enhance the workings of the world economy. This is of great importance, especially after the financial crisis, when emerging economies from Asia were expected to stimulate international trade, not only by sending cheap manufactured products to the global North, but also by becoming global consumers and pillars on which global recovery programs were built.

MDBs also recognize the importance of demonstrating that beneficiaries' prosperity and well-being are an integral part of the international community's goals. This helps to build trust and confidence between nations, allowing each to see that their strategic objectives are not mutually exclusive. Such acts of solidarity should not just be limited to low income countries. They are also important for middle income states that are winding down existing ODA programs giving them a stronger sense of economic security.

It is crucial for the Asian economies to use this momentum to strengthen regional economic infrastructure links and stimulate South–South trade. MDBs funding should involve more projects that increase interconnectivity in different sub-regions of Asia. The EU sponsors need to be convinced that such initiatives further increase regional and global growth, while also potentially decreasing the impact of future economic depressions.

Supported by MDBs, economic cooperation can be a foundation for fruitful political relations. Governance procedures make it impossible to use MDBs in exactly the same way as bilateral instruments of foreign policy. Even the biggest shareholders need to create a coalition to implement a particular bank's decision. This is why MDBs suit multilateral diplomacy and could be used to strengthen the collective position of a whole block of countries in a specific part of the world. The structure and character of MDBs make it rational for the European Commission, as the representative of the whole EU, to consider joining the ADB, and perhaps even the AIIB, especially in light of the potential negative consequences of Brexit. Alternatively, EU institutions could encourage the remaining 11 member states, starting from Czech Republic, Slovakia and Slovenia (countries in transition from emerging donors to traditional donors), to join the ADB and/or the AIIB in an attempt to indirectly coordinate their voting power in these MDBs on the level of common foreign and security policy.

The effectiveness of MDBs as a tool of economic statecraft for any individual country is limited, but should not be underestimated. The bigger the share a country has in a particular financial institution, the greater its influence on a bank's agenda and distribution of resources. This impact is well known to other actors and can therefore be indirectly used as leverage in bilateral negotiations. An influential shareholder will do its best (via elected directors/presidents) to convince other partners to

invest the bank's capital in projects proposed by states relevant for their trade relations or foreign policy. It is no coincidence that the biggest EU shareholders in both the ADB and the AIIB are countries already well known for their engagement in Asia: Germany, France and the United Kingdom.

The fact that the three MDBs being considered have all been built on the IBRD's blueprint has resulted in clear similarities in terms of their *modus operandi* and model of governance, as well as substantial overlapping when it comes to their membership and focus areas. Current differences in terms of capital and financial operations should not be major stumbling blocks for developing more advanced cooperation between them. Two further differences between these international organizations relate to their experience and their distribution of voting power. These differences suggest that furthering ADB–AIIB–EBRD cooperation will require closer political consensus, which will allow their experts to identify more projects of common interest.

The data presented on joint projects involving our three MDBs suggest that their intention is to send a signal to recipient nations and/or the region, showing that relations with EU members are progressing well. The scale of these joint ventures is evidence that they are calculated to cause this political effect, rather than any major economic change on the global, or even regional, level. This does not, however, imply that these projects are without value from the Asian perspective. Although evident only at the micro scale, they have clearly resulted in various gains for recipient societies, their governments and businesses.

The limited cooperation between the ADB and the EBRD could be invigorated by the AIIB, the “new kid on the block,” that actively seeks various co-financing opportunities, including joint ventures with both aforementioned banks. This could happen either by trilateral projects, in which all three banks play a part, or the AIIB using its energies and capital to fund projects, challenging the existing orthodoxy, showing the other two banks that the existing investment landscape is not carved in stone.

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