

The role of AIIB and NDB in the development of the Asian finance

Igbal Guliev

Moscow State Institute of International Relations (MGIMO-
University) of the Ministry of Foreign Affairs of the
Russian Federation
Moscow, Russia

Rustam Kamalov, Irina Rassolova, Fedor Arzhaev
Financial University under the Government of the Russian
Federation
Moscow, Russia

Abstract—The article overviews a complex theme of the Asian cooperation of the financial institutions aimed at building the Asian financial system as a whole. AIIB and NDB are the core of this process and their influence on the formation of the Asian finance is researched and pinpointed in this paper. The main findings of the article are: the key features of the Asian financial system and the tracks of its development; the impact of the AIIB and the ADB on the development of Asian economies and their role in the transformation of the financial interactions in Asia. The novelty of the article includes the method of assessment of the impact of the development of AIIB on the developing economies through the investments and the estimation of the role of AIIB and NDB in the development of Asia.

Keywords—AIIB; NDB; Sustainable development; Asian financial system; BRICS

I. INTRODUCTION

The Asian Infrastructure and Investment Bank is one of the most ambitious financial institutions, offered by the PRC in Asia. It attracts financial resources to the Belt and Road Initiative projects and to the infrastructure projects and “green” projects, including green energy projects in Asia. The second institution – the New Development Bank of BRICS – offers a mighty instrument of support for the projects in BRICS countries. The key areas of cooperation are the same, as in the AIIB. At the same time, NDB is tightly connected with the BRICS Reserve Fund (BRICS Contingent Reserve Arrangement [1]), which offers support for the member countries in case of financial difficulties. These financial institutions are a serious competitors to the traditional international organizations, such as the International Monetary Fund and the World Bank Group. AIIB and BRI are a product of contemporary global financial system, but their mechanisms differ from the ones under IMF and other traditional institutions.

The future of the current international monetary and financial system is still unclear. Despite the theoretical end of the global financial crisis of the 2008, the problems that gave birth to it were not solved. Moreover, the Asian Development Bank, constructed with the aim to stimulate the economic development of Asia, today conducts more research work and consults the governments of Asian countries much more, than it was intended and hence invests less in their development (according to the authors’ estimation [2]). In this regard, the

efficiency of the AIIB and NDB activities is much higher, especially because of the spheres of their activities.

Taking into account all the mentioned, it’s highly important to estimate what impact AIIB and NDB have on the development of the financial system in Asia, especially in the context of the fast development of Asian countries and the growth of their role in the world economy. The novelty of the article comprises in the determination of the financial institutions’ impact on the future of the financial and monetary markets in Asia and in the assessment of the role of the development banks in the reform of the regional financial architecture. In addition to that, the authors give an explanation of the higher synergetic effect of the development banks on the economy of the countries, compared to the financial resources, provided by the World Bank Group. The low effectiveness of consulting services of the international organizations is also explained, and it serves as one of the main proofs of the formation of the new financial system in Asia.

II. METHODOLOGY

The development banks are historically more efficient than the mentioned traditional financial and monetary institutions, as, just as it follows from their name, they are formed to stimulate the development of the least developed countries, or even regions of the world. In order to satisfy the requirements of the development of these countries, they possess a mighty instrument – crediting. Still, some of them are formed by repeating the structure and functions of the World Bank. ADB is one of such institutions. Others, especially, the recently created ones, are constructed in order to finance a narrow range of spheres, the most important and frequently met of them are: energy sector, infrastructure, communication, “green” projects.

The mentioned areas are vitally important for the economies of the developing countries, because they have tight interconnections with other industries, namely, construction, machinery, metal industry etc., and with R&D industries, that provide basic technologies for implementation of the results of the projects’ realization in the national economy. In this way, the main investment areas of AIIB and NDB have the potential for the general economy development, in this way stimulating the sustainable development and growth of the potential of human capital in the countries, receiving investments. It’s clear, that the growth of economy, especially, intensive growth,

stimulates the development of the sectors, connecting the industries, such as logistics, when speaking of physical connections and finance and institutional interactions, when referring to non-physical connectivity. In turn, this lets the financial systems of less developed countries to start integration in the global financial system. Despite the fact, that global financial system tends to transmit crises to the economies, that are part of it, and the deeper is the integration of a national economy in global financial system, the deeper the impact of crisis is, the positive effects of financial globalization, especially for the least developed countries (LDC), prevail.

For the developing economies, the mentioned above conclusions are true too, but in their case the main development effect lies in the support of problematic spheres of economy, that desperately need investments. So, in this aspect, it's more reasonable to determine the most problematic development areas of their economies and research the effect of AIIB and NDB capital on them.

This trend allows to make a conclusion, that the AIIB and NDB contribute to the formation of the system of the Asian LDCs financial network, based on the best and most effective models, used by the Asian dynamically developing economies.

The methods used in this paper are of empirical nature. We research and compare the investments, made by the AIIB and NDB with the potential of investment in Bangladesh, Pakistan, Tajikistan and Myanmar for AIIB, and in this way, demonstrate the role of these institutions in the development of the LDC. For NDB, that doesn't conduct any projects in the LDCs, we can use the same method for BRICS countries, but due to their active investment position and because of the other financial logic of NDB contribution to the economies. As we have already mentioned, the investment projects of these institutions have a high synergetic effect on the economy of the hosting states, but the dynamically developing countries have nearly limitless potential for receiving FDI and capital in general. Moreover, in Asia their need in capital is satisfied to a vast extent by the multinational corporations (MNCs), that have much more financial resources, that all the development banks altogether. In order to estimate the effect of NDB on the economies of its Asian members, we have put forward their most problematic areas of economy and through the research of NDB projects demonstrated the positive contribution of the Bank to solving the current issues.

In addition to that, the described development banks have a serious potential to become an alternative to other financial institutions, that are active in Asia, namely, the Asian Development Bank and the World Bank, especially for the LDCs. In order to prove that, we have compared the benefits, that LDCs get from cooperation with AIIB and the role of NDB in the development of the financial system of BRICS countries.

III. AIIB ACTIONS, FORMING THE DEVELOPMENT TRACK OF THE ASIAN REGION

AIIB participates in a number of projects, some of them vitally important for the development of Asia. AIIB participates in 35 projects [3], some of them are aimed at the comprehensive development of the LDCs of the region. Table 1 demonstrated the inflow FDI and the AIIB projects in the chosen countries.

TABLE I. COMPARISON OF THE CAPITAL FLOW IN THE CHOSEN COUNTRIES (IN \$ MILLIONS) – CALCULATED BY AUTHORS, DATA FROM [3], [4].

| Country | Bangladesh | Myanmar | Pakistan | Tajikistan |
|---------|------------|---------|----------|------------|
| FDI | 2152 | 4314 | 2806 | 141 |
| AIIB | 616 | 20 | 400 | 87,5 |
| Ratio | 0,286 | 0,005 | 0,143 | 0,621 |

According to the data, given above, we offer a ratio of influence of the investments of the development banks on the economy of the developing economies ($R=DBI/FDI$, where DBI stands for development bank investments). This method allows to shape the overall impact of the development bank investments on the economy of the country. As it was already mentioned, the more developed the country is, the less the impact will be. According to that, the development banks in Asia are more effective for the developing economies until the moment, when their development level reaches that of the main donor economies, in our case, PRC, India and Russia. When it happens, the model, provided by the World Bank will become more suitable for them. In order to prevent it, the development banks need to be able to transform and provide other financial instruments.

Today AIIB is one of the main creditors of the region, with its financial resources it has the potential to push the LDC of Asia on the development track. Still, it provides many new effects to the global and regional financial system. One of them, comprising of the synergetic development is illustrated on the Figure 1.

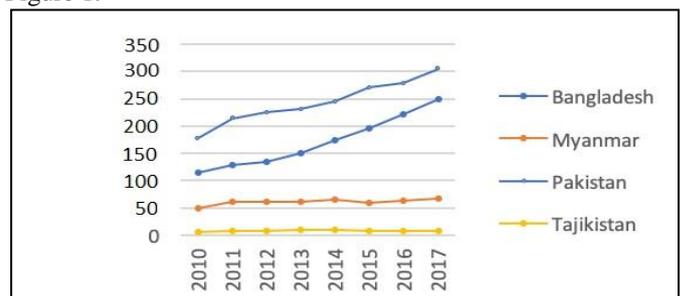


Fig. 1. GDP growth of the selected countries, in \$ billions [5]

We don't observe the correlation between the volume of investments of the development banks and the growth of GDP, but we remark the radical change of the GDP behavior in 2012-2013, the period, when there were no crises and the growth of the selected countries was primarily not affected by any radical external change, except for the first agreements on the credits from AIIB, that started functioning in 2013. Tajikistan despite the high value of the R-ratio, didn't improve its situation around GDP, but according to the Inclusive Development Index (IDI) [6], it has positive dynamics of economy (it rose to the 54 place among the developing economies, in fact, all the

mentioned countries, except Myanmar, that isn't ranked, are enjoying positive dynamics of the indicator).

IV. NDB ACTIONS THAT CONTRIBUTE TO THE CHANGES IN ASIAN FINANCIAL SYSTEM

NDB is one of the most interesting institutions, constructed by the most dynamically developing countries of the world. This institution contributes greatly to the development of the Asian financial system due to the fact, that its activity is aimed at developing the BRICS countries via FDI and financial support from the BRICS Reserve Fund. NDB activity pursues the same goals, as the AIIB and they enjoy a synergy effect in Asia. As we have already described, the main spheres of interest of the Asian development banks (just as the spheres of interest of NDB) contribute greatly to the comprehensive economic development of the countries. Let's put forward the most problematic energy, infrastructure and sustainable development areas of the BRICS countries.

For Brazil, the main issues are low innovational potential and lack of infrastructure, highly needed to develop the distant regions of the country that are surrounded by the dense rainforests. At the same time, green energy potential of the country is underestimated and its realization needs additional financing. This sphere is exceptionally important for Brazil, because of the high impact of the Brazilian rainforests on the ecological situation on global scale.

For Russia, we put forward the problems of low infrastructure density, especially, when referring to the vertical infrastructure connectivity (North-South roads and railways). Moreover, Russia lacks systematic investments, especially in the context of long-run sanctions, imposed by the Western states, that makes its financial and economic systems less effective. In addition to that, Russian economy needs reforms, that will allow it to develop new tracks.

India vitally needs to develop innovations potential and human resources, but the energy issue is no less important, especially when considering the supply of energy to isolated (hard to reach) regions of the country and its vast potential in the sphere of alternative energy.

China, on the other hand, has a surplus of economic resources, but the ecological standards of its energy industry are lower, than in other BRICS countries, moreover, its economy needs FDI in specific spheres, especially in the sphere of innovative development, that requires extensive financing. It's notable, that the Chinese innovative sector provides mighty impetus for the ecological development.

South Africa is in deep search for new sources of energy resources, as the potential of the country in the sphere of exports of conventional energy resources is fading. In addition to that, SAR is facing employment problems and needs to restructure its economy in order to adapt it to the new global markets [The named problems are the interpretation and the consequences of challenges put forward in [7)].

As we have described above, all the BRICS countries have needs, that fall under the main aims of NDB activity [8]. According to the project list of NDB, the biggest credit to Brazil involves the development of energy sector (BNDES –

\$300 mln), the others are aimed at developing infrastructure and account for \$361 mln investments. In Russia the investment portfolio of NDB comprises of \$909 mln of infrastructural investment, partially credits to the Government of Russian Federation, \$460 mln on sustainable development of judicial system and \$100 mln of green energy. India received \$600 mln of development of green energy, but lacks investments in human potential. Still, a huge amount of financial resources from NDB is aimed at developing infrastructure. For China, the investments in green energy are equal to \$1,3 bln, and \$700 mln on ecological and sustainable development. SAR received no less than \$700 mln for the development of energy sector (all the mentioned statistics in the paragraph above are calculated by the authors on base of the data [3]).

As it was demonstrated above, NDB acts in a such way, that the needs of the developing economies of BRICS receive maximum support for problematic areas – the correlation between the projects financing and the pinpointed problem areas of the countries fully correlate (except for India, that lacks investment in the development of innovations and in human development). It proves, that the effectiveness of NDB is much higher, than that of the current financial institutions, such as the World Bank Group and the Asia Development Bank, that provide many consultative services and don't focus on specific areas, that tend to be problematic for all the developing countries and in case of the solution of the problems, evolve into the massive boost for their economies. At the same time, we shouldn't miss the fact, that BRICS provides another mechanism – the Reserve Fund, that serves as an alternative for the IMF financial mechanisms in BRICS countries, that is exceptionally important for the countries, when crisis hits global economy and the IMF resources won't be enough for the support of all the states in need and the decisions on what country to support will be taken on the base of political and non-economic rationale.

V. DISCUSSION

AIIB and NDB provide many new instruments for financial and political changes in Asia, in particular in the sphere of Asian finance. These institutions support the rapid growth of the region and support the development of economy and social development on the basis of the modern technologies and responsible attitude to the human development and nature conservation. Still, there is one important issue to research in this sphere – the political and cultural aspect of their activity.

AIIB and NDB are institutions that are known for their openness and readiness to conduct a dialog. Still, in both of them PRC plays an important, if not a key role. It instigates the fears of China dominating the region and pressing the other countries to act in its interests. This thesis is doubtful, because in the current situation on the markets and the high risks of new international conflicts (including Asia) only multicultural dialog mechanisms and financial cooperation as the support of the paradigm decisions, made during multilateral talks, are the key to easing global tensions. They fulfill their functions in full accordance with the opinion of Samuel Huntington on the fact that ending global conflicts is possible only on intercivilizational basis [10].

As we have mentioned AIIB and NDB provide many benefits for Asian countries, still their main disadvantage is that they are not fully formed yet and are on the stage of formation of the investment policy.

VI. CONCLUSION

AIIB and NDB are the core institutions of the Asian financial system. Their role in this system comprises of the satisfying of needs of the countries of Asia and formation of the possibilities for future development. NDB and AIIB contribute to narrowing the gap between the developed and developing countries in Asia.

The supplementary mechanisms of BRICS and the credit agreements between AIIB and the World Bank and ADB are the main instrument of promoting the new comprehensive partnership between the Asian countries. In addition to that, both AIIB and NDB contribute to the named changes of the Asian financial system, forming 3 main characteristics it possesses: complexity, inclusiveness and openness.

The future of AIIB and NDB and the Asian financial system can be expressed in 2 basic scenarios.

The first one comprises all the possible development initiatives that contribute to forming a fragmented system of relations between the countries of the region that will be united by the loose ties of international organizations, such as AIIB and NDB. The effectiveness of such system is lower, than the one in the second scenario. This scenario may come to life in case the development of AIIB and NDB leads them to the model of "China first", but due to the Chinese strategy of the "mild force" and more profitable for PRC inclusive development of the region, this scenario is less probable, than the second one.

The second scenario implies the construction of tightly connected blocs of countries around BRICS nations (around PRC, India and Russia in Asia) and the system of relations between these blocs, based on the institutional rules, formulated by the financial and monetary institutions in Asia and international law. This scenario is more likely, but the time horizon, when it comes real lies closer to the 2050, or even further in the future. The risks of this scenario are unneglectable, but the benefits for Asia are much higher.

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