To Compete or Complement:

How do ADB respond to AIIB by adjusting its lending strategy?

Jianzhi Zhao [1]   Jing Qian [2]   Zetao Wu [3]

[1]Fudan University, Shanghai, China

[2]Princeton University, NJ, USA

[3]London School Of Economics and Political Science, London, UK

The Third Annual China-India Workshop

June 7, 2019

Introduction 1

Since 2000s, the emerging donors from global south have been re-shaping the landscape of development aid dominated by OECD-DAC countries for 50 years.

	Southern Model	OECD-DAC Model
Rising Time	After 2000s	1960s
% of Development Aid	8%-31%	69%-92%
Donors	Rising developing countries – China, India, Brazil, etc	developed countries – US, Japan, etc
Approaches	"Back to Basics" approach focusing on hard sectors	Holistic approach covering both hard and soft sectors.
Donor-recipient relationship	parallel relationship of south-south cooperation and mutual benefits	Vertical "North-South" relationship
Typical Examples in MDBs	AIIB, NDB	WB, IMF, ADB

Introduction 2

The newly-founded China-led Asian Infrastructure Investment Bank
(AIIB) has added extra development financing in Asia-Pacific where
Japan-led Asian Development Bank (ADB) have been playing major
role.

	AIIB	ADB
Established Time	2015	1966
Project Info	30+ projects, $7.94 billion	5000+ projects, $270 billion
Leading Country (Voting Share)	China (26.76%), India (7.64)	Japan (12.76%), USA (12.76%)
Number of Members	68	69
Vision	Reduce poverty and promote economic and social development in AP	
Approaches	"Back to Basics" approach focusing on hard sectors	Holistic approach covering both hard and soft sectors.

Introduction 3

- ▶ What is the impact of the newly-founded China-led AIIB on lending behaviors of the traditionally-dominant Japan-led ADB?
- ▶ How would their interaction influence the welfare-beings of recipients?
- ▶ The discussion on the above questions has been heated, but most of the studies were based on textual and macro analysis, not empirical evidences.

Theory 1

ADB will compete against AIIB.

- ▶ From a zero-sum game perspective, Japan and its ADB have to compete to keep its leading role in Asia. (Hamanaka, 2016)
- ▶ ADB has to compete against AIIB for clients. Because recipients only have limited time to interact with donors, and limited capacity to operate projects, they could not accept loans from multiple donor countries indefinitely. (Zeitze, 2018)
- ▶ The better partner for ADB is not AIIB, but WB as ADB and WB have tighter connections and similar ideology of development assistance. (Jakupec and Kelly, 2015)

Theory 2

AIIB will compliment with ADB.

- ▶ Development finance gaps in Asia are huge, thus there is no need for ADB to regard AIIB as a rival in a zero-sum game setting. (Zhao, 2017)
- ▶ Collaboration with ADB lowers the risk and cost of AIIB. (Suzuki, 2015)

Sample and Data

Sample:

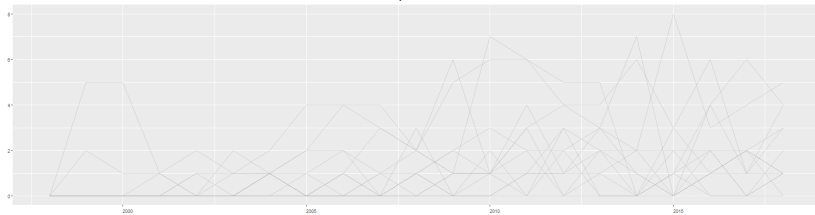- ▶ 40 ADB developing member countries (DMCs).
- ▶ 19 years: 2000-2018.

Data:

- ▶ All approved ADB Sovereign projects.
  - ▶ # of projects by country and year.
  - ▶ Total financing amount by country and year.
- ▶ AIIB membership.
  - ▶ Year of formal AIIB membership.
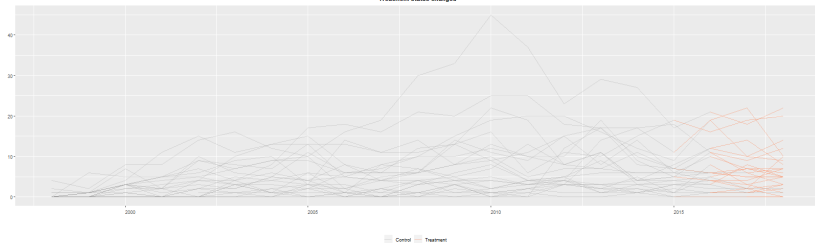 - ▶ Founding members vs. Other members.

AIIB membership year
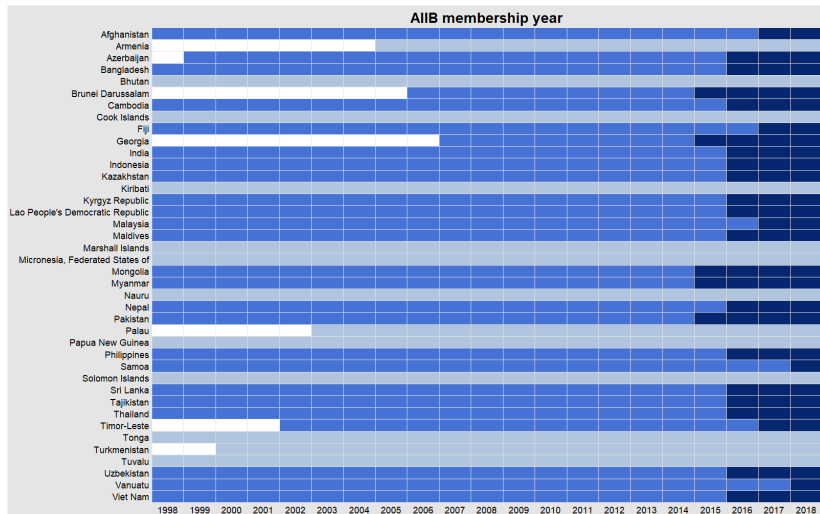
ADB project counts by group

Model Setup

- ▶ Dependent variable: # ADB projects by country and year.
    - ▶ Count data.
    - ▶ Overdispersion: $\mu \approx 4.4$, $\sigma^2 \approx 31.8$.
    - ▶ $\Rightarrow$ Negative Binomial Regression.
- ▶ Independent variable: AIIB membership indicator.
    - ▶ 22 founding members as in 2015.
    - ▶ 27 members from 2015-2018.
- ▶ Covariates:
    - ▶ GDP per capita (logged)
    - ▶ Population (logged)
    - ▶ Polity score
    - ▶ UNSC membership
    - ▶ FDI as % of GDP.
    - ▶ Debt service as % of GDP.
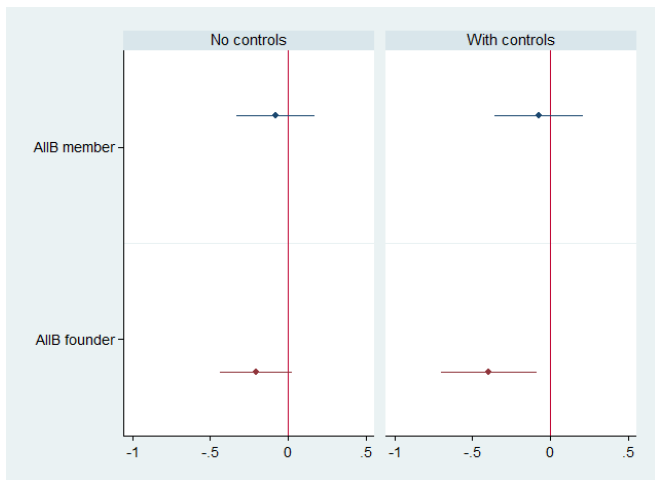   - ▶ Total ODA as % of GNI.
    - ▶ Resource rents as % of GDP.

Specification

$$\mu_{it} = \exp(\alpha_i + \gamma_t + \beta \times \texttt{AIIB}_{\texttt{i,t}} + \mathbf{x}_{i,t-1}^{\top}\boldsymbol{\lambda} + \epsilon_{it}) \qquad (1)$$

- $\texttt{AIIB}_{\texttt{i,t}}$: Indicator Variable of AIIB membership.
- $\mathbf{x}_{\texttt{i,t-1}}$: Covariates (lagged by one year).
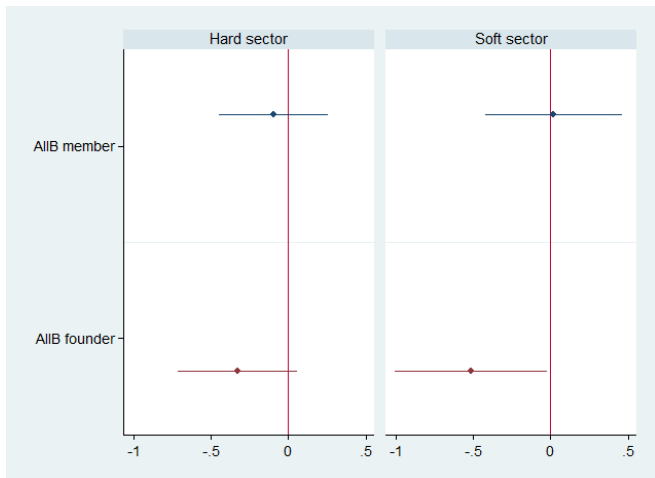- α_i: Country FE.
- γ_t: Year FE.

Preliminary results
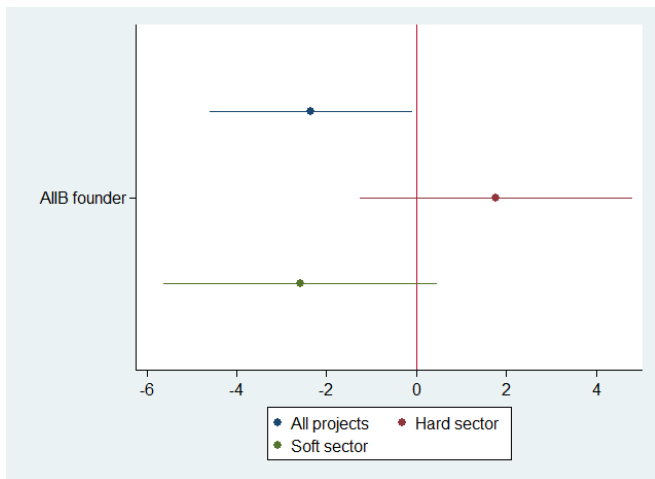
Figure: ADB project counts: AIIB member vs. founders

Preliminary results

Figure: ADB project counts: Hard vs. Soft sectors

Preliminary results

Figure: ADB financing amounts

Conclusion

Statistical Results:

► Being AIIB founding membership significantly decreases its ADB project amount on hard and soft sectors.

► Being AIIB founding membership significantly increases its ADB project financing amount in hard sector, while decreases that in soft sector.

Implication:

► Facing pressure of AIIB, ADB chose to emulate, not differentiate its funding, thus to provide more financial support on projects in hard sector, not soft sector.

► The interaction between AIIB and ADB may rise the welfare of recipient countries as they receive more financing support on hard-sector projects and make the development finance governance in Asia more diversified and just.