

## ASIA PROGRAM

### China Analysis Group

### XXI China Analysis Group Meeting

December 9, 2020

9:00-11:00 a.m. (Brasilia Time) / 8:00-10:00 p.m. (China Standard Time)

*Online discussion panel via Zoom*

**Theme: “The increasing role of Asia in multilateral development finance”**

### THEMATIC GUIDELINES

Development finance is a crucial component of China’s contemporary globalization strategy and an integral part of its new proactive foreign policy. In the last decade, China has adopted a comprehensive strategy with regard to financing for development, encompassing bilateral, regional and multilateral initiatives. They culminated in the creation of the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB), new multilateral development institutions headquartered in China but with a global reach and diverse membership from all continents. Brazil was a founding member of both, and a Brazilian now presides over the NDB – Mr. Marcos Troyjo, who took office in July 2020 for a five-year mandate.

China has also made use of its international reserves to create funds with both a portfolio diversification and development finance objectives. This is the case of the China-LAC Cooperation Fund (CLAC), the China-LAC Industrial Cooperation Investment Fund (CLAI), the Fund for Cooperation and Development between China and Portuguese-Speaking Countries, and the Silk Road Fund. One could also add the China Investment Corporation (CIC) and many regional-oriented initiatives as vehicles for investment based on Chinese sovereign reserves. They complement the large amounts of financing made available bilaterally by China through the China Development Bank (CDB) and the China Eximbank. A rough estimate indicates that the total sum of Chinese initiatives with a mandate to invest in Brazil easily surpass USD 60 billion for investments in infrastructure and production, in

addition to the contributions by CDB. Chinese loans to Latin America, including Brazil, over the past ten years, have surpassed those of financial institutions traditionally active in the region, such as the World Bank, the Inter-American Bank, and the Development Bank of Latin America (CAF). The performance and strong presence of Chinese commercial banks in Brazil also make them relevant supporting partners in infrastructure projects.

Thus, Brazil seems well positioned to enhance its cooperation with China to help fund its development needs, which depends, however, on a more focused and pragmatic implementation of the many bilateral and regional initiatives. A case in point is the *Fundo de Cooperação Brasil-China para Expansão da Capacidade Produtiva* (“Brazil-China Fund”), set up in 2015 and operationalized in 2017, but without concrete results yet. The original announced amount available for projects was USD 20 billion, 75% from China and 25% from Brazil.

Against this backdrop, this session would like to focus on the significance of the “multilateral development banks for the 21<sup>st</sup> century”, NDB and AIIB, in a Brazilian development strategy that must deal more and more with a rising China and Asia. Both institutions have embraced the concepts of sustainability and green finance as core elements. They have also refocused the global debate on the importance of infrastructure investment, both hard and soft infrastructure. Interestingly, the NDB has embedded the Sustainable Development Goals in its Articles of Agreement. Countries that used to be on the recipient side of multilateral loans, especially in the case of the NDB, are now facing the challenge of developing together a new model for development finance, attuned to the mandate of demand-driven projects but also ensuring the highest financial and compliance standards in “mobilizing resources for infrastructure and sustainable development”.

At times of abundant global liquidity and historic low interest rates, the breach of resources for infrastructure projects in developing countries and emerging economies is still huge and the role of multilateral development banks in the effort of going from “billions to trillions” is instrumental. In just five years of existence, the NDB is likely to close 2020 with a portfolio of over USD 20 billion in approved projects and the AIIB has surpassed this amount last year. Both institutions have also swiftly supported emergency efforts to fight COVID-19, with sizable loans approved for their members or under approval. The NDB has also opened an Americas Regional Office based in São Paulo and is actively engaging with states, municipalities, state-owned enterprises (SOEs) and the private sector to create new projects.

Another aspect of the new Asian leadership in development finance is how to crowd in the private sector and help leverage its capital base by making use of innovative mechanisms such as project finance, guarantees, syndicalization and co-financing. In the case of Brazil, there could be a very interesting role to be played by the BNDES, but also by private banks and funds.

To help us analyze these complex and dynamic issues, at its 21<sup>st</sup> Meeting, the China Analysis Group proposes three themes and questions to our speakers and audience:

- 1) What to expect from 21<sup>st</sup>-century Multilateral Development Banks (MDBs) in relation to traditional MDBs? What does the recent experience of the NDB and the AIIB teach us?
- 2) How could the concept of sustainable infrastructure help strengthen international cooperation? In which ways could Brazil contribute to the new MDBs' effort of promoting sustainable infrastructure? Could this feed into Brazil-China investment relations?
- 3) What are the paths ahead to fully integrate the private sector's role in development financing? Lessons from Asia? China? Brazil?



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