

Financing Infrastructure Investment in Northeast Asia: ADB and AIIB

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Financing infrastructure investment remains a major challenge for Asia's developing and emerging economies, and Northeast Asia (including northeast China, DPRK, Mongolia, and Far East Russia) is no exception. ADB and ADBI (2009) estimated total investment needs for developing Asia to be US\$8.3 trillion between 2010 and 2020, i.e., US\$750 billion per year during this period. Based on this study and others, Kawai (2013) estimated Northeast Asia's indicative investment needs for transport, energy, ICT, and the environment (including water and sanitation) to be US\$63 billion annually between 2010 and 2025 and claimed that US\$13 billion would have to be mobilized from external sources..

National governments are primarily responsible for planning, financing and implementing infrastructure projects. In addition, infrastructure investment has also been financed by external official sources, such as multilateral development banks (MDBs: the World Bank, the Asian Development Bank [ADB], etc) and bilateral donor agencies from developed countries (Japan International Cooperation Agency [JICA], Japan Bank for International Cooperation [JBIC], etc.). The role of regional MDBs, particularly ADB, has been instrumental in financing cross-border infrastructure projects as they have been able to act as honest broker for the countries concerned.

In recent years, bilateral donor agencies from emerging economies (including the Korea International Cooperation Agency [KOICA], Korea Eximbank, China Development Bank, Eximbank of China, etc) have become an increasingly important player in financing infrastructure projects in developing countries. The China-led Asian Infrastructure Investment Bank (AIIB), newly established at the end of 2015, is also expected to provide a substantial amount of infrastructure investment financing in Asia, including Northeast Asia. This is particularly the case as Russia is a member of AIIB (but not a member of ADB).

Partly as a response to the establishment of AIIB as a potential competitor, ADB has undertaken several reforms: expanding lending capacity through the merger of the Asian Development Fund's equity and lending operations with the Ordinary Capital Resources balance sheet; speeding up delivery of its assistance to member countries and enhancing operational efficiency; and catalyzing more private funding through public-private partnerships. This is one of the positive outcomes of the establishment of AIIB as it has led to ADB reforms to make ADB more competitive and efficient.

In this paper, I discuss infrastructure investment financing challenges for Northeast Asia, potential roles of ADB and AIIB, and modalities for collaboration between the two MDBs. I argue that it is important for ADB and AIIB to work together to ensure that they can help finance infrastructure investment projects in the subregion in a coherent, consistent manner in project preparation, designing, financing, implementation, and post-project evaluation. ADB needs to continue to respond to the needs of its member countries and AIIB will have to achieve high standards on social and environmental safeguards in its operations. In addition, ADB and AIIB can show large potential benefits for the DPRK joining them, which could induce the country to make political and economic efforts to eventually return to the international community.