

Patient Capital in the context of Belt and Road Initiative (BRI) and MDBs

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Outline

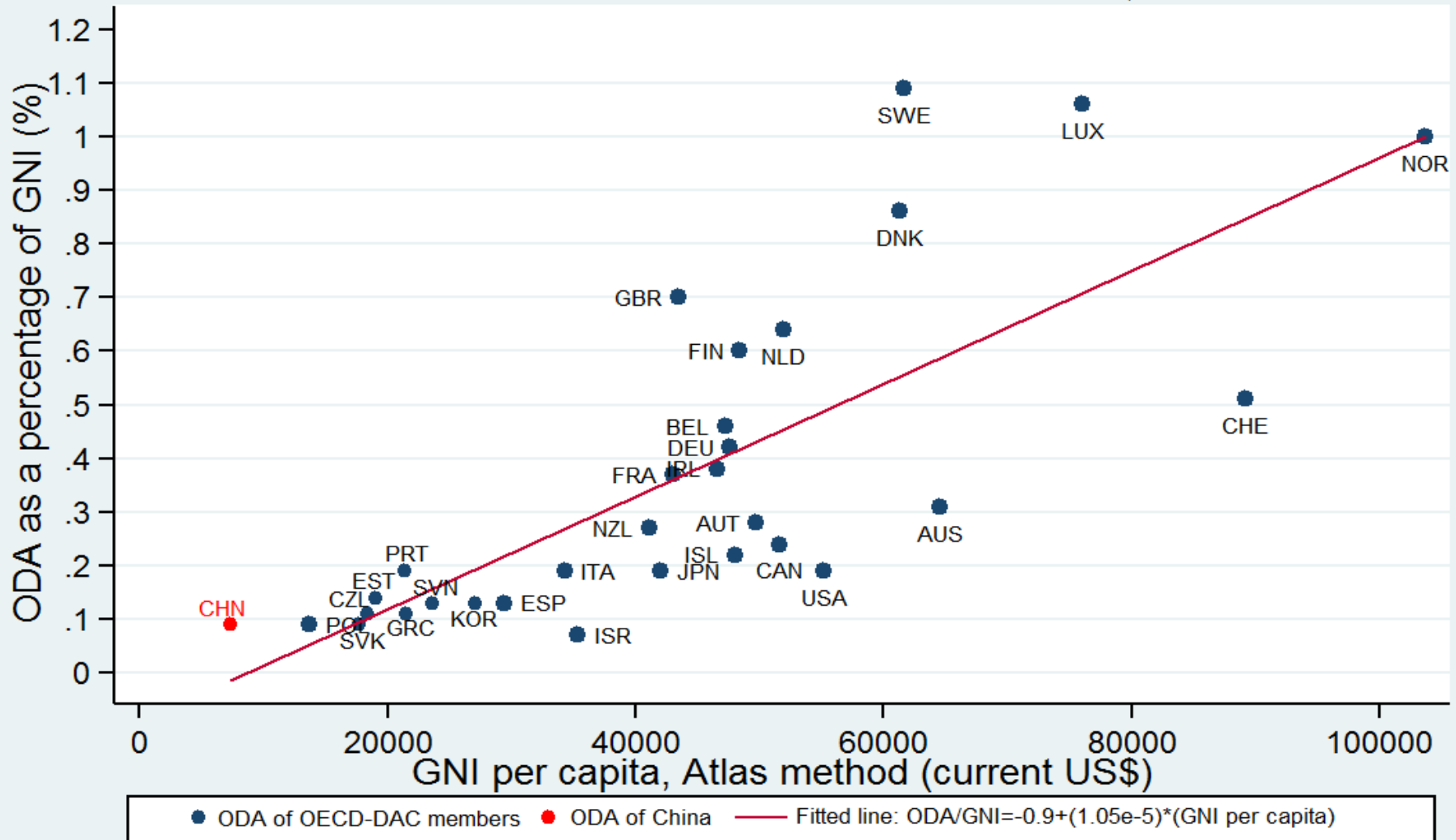
- I. China's approach in South-South Cooperation: combining trade, aid and investment
- II. What is patient capital?
- III. MDBs and NDBs can utilize Patient Capital to finance Infrastructure and Private Sector
- IV. SWF, Strategic Investment funds, Silk Road Funds are all providers of Patient Capital
- V. Please incorporate South-South Cooperation and new development banks/funds/ Belt Road Initiative (BRI) in the final documents for FfD

I. China's Approach in SSDC: trade, aid and investment

- China combines trade, aid and investment in South-South Dev Cooperation (SSDC)
- **China's aid is not "altruistic". The government never considers aid as one sided "alms", but something mutual.**
- ... "Do what they know best", following their comparative advantage in providing South-South Dev. Cooperation (SSDC)
- ... "Teach fishing rather than giving fish", following China's own experience and building 6 Special Econ Zones in Africa. Example below

China's ODA: small, with huge potential

The Comparison of ODA as percentage of GNI and GNI per capita between China and OECD-DAC members, 2014



Source: Yan Wang 2011. page 22. Updated by Aidflow using 2014 data, Oct 2015.

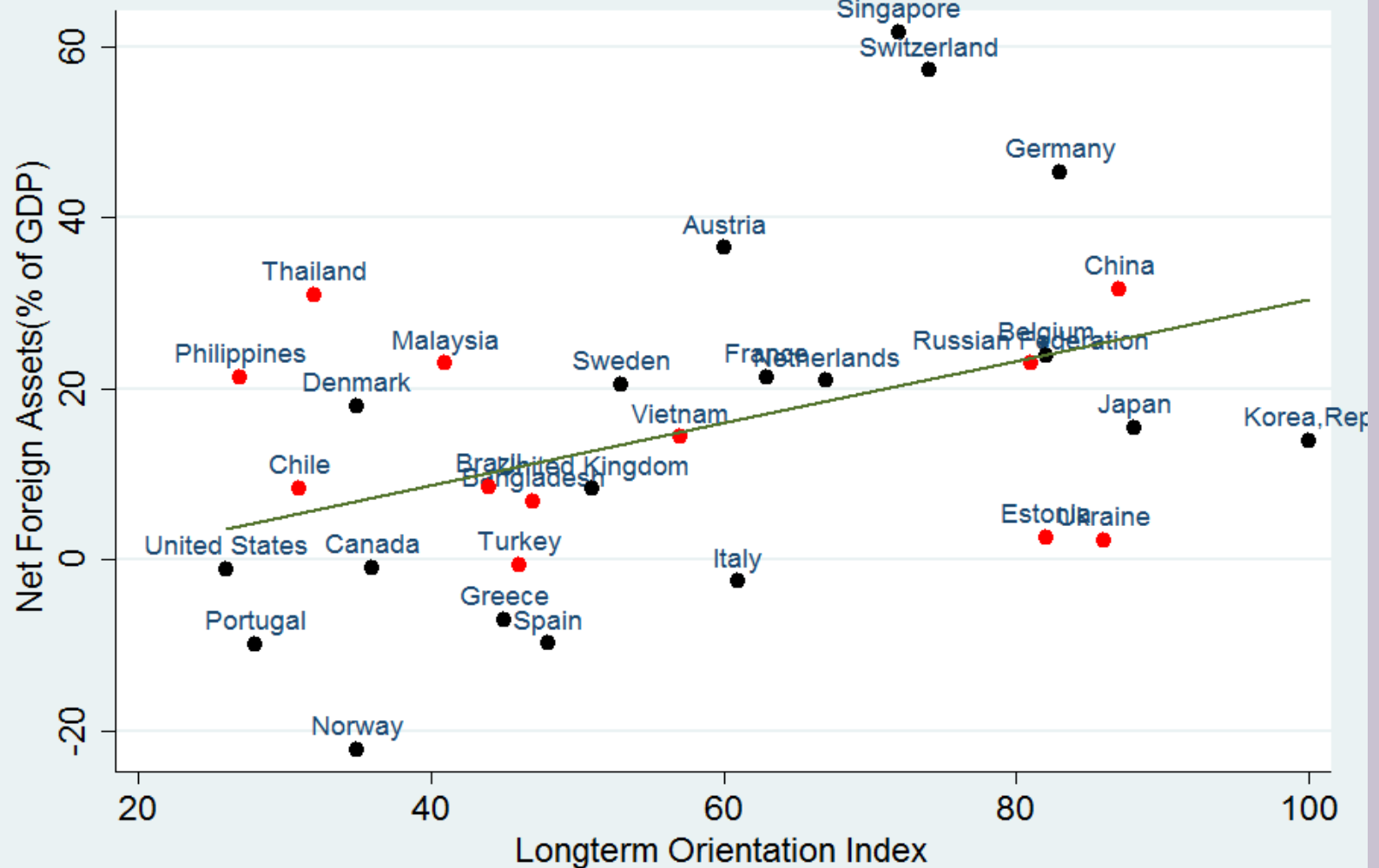
Southern partners can use 3 Comparative Advantages

- **Utilizing comparative advantage (CA, a trade concept) to help each other**
- First, China has comparative advantages in building infrastructure: e.g. hydro-power, highways, and high-speed railways
- Second, China has comparative advantage (CA) in 45 out of 97 subsectors in trading goods
- Third, emerging economies have high savings and **Patient Capital**, which could be a comp advantage to be utilized

II. Utilizing Patient Capital

- What is patient capital?
- **Patient capital:** those capitals to be invested in a “relationship” in which the stakeholder/partner is willing to take a stake in the host country’s development, aiming for a win-win. Countries with “Long Term Orientation” (Hofstede, 1990, 2010) are with “patient capital”.
- They are equity-like investors but willing to “sink” money in the real sector or unlisted projects for a long time—as long as 10 years and above.
- And they are willing and better able to take risks.
- **Net Foreign Asset** is positively and significantly associated with Long Term Orientation index. On the other hand, countries with Short Term Orientation and low savings rates would see their Net Foreign Asset positions deteriorating and their foreign debt mounting. (Lin and Wang 2017b)

II. Patient Capital (ultra-long term) from China and other EM



Note: the net foreign assets data is average value based on years from 2011 to 2015 and queried from World Bank WDI Database..

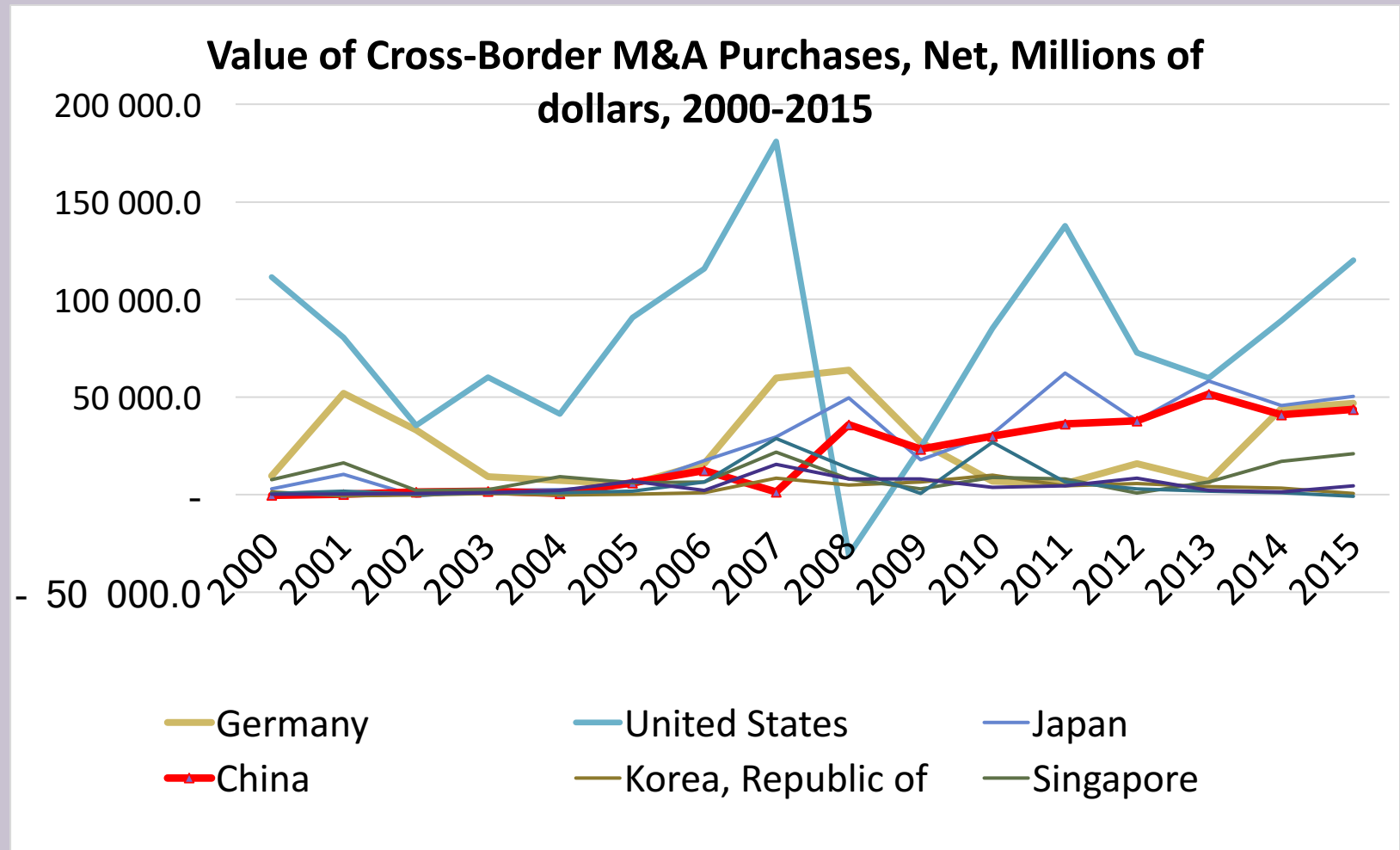
Patient capital 1: Net suppliers of FDI

Outflows minus inflows



Source: Lin and Wang 2017b. Calculated based on UNCTAD data.

Patient capital 2: Cross-Border M&A Purchases, Net



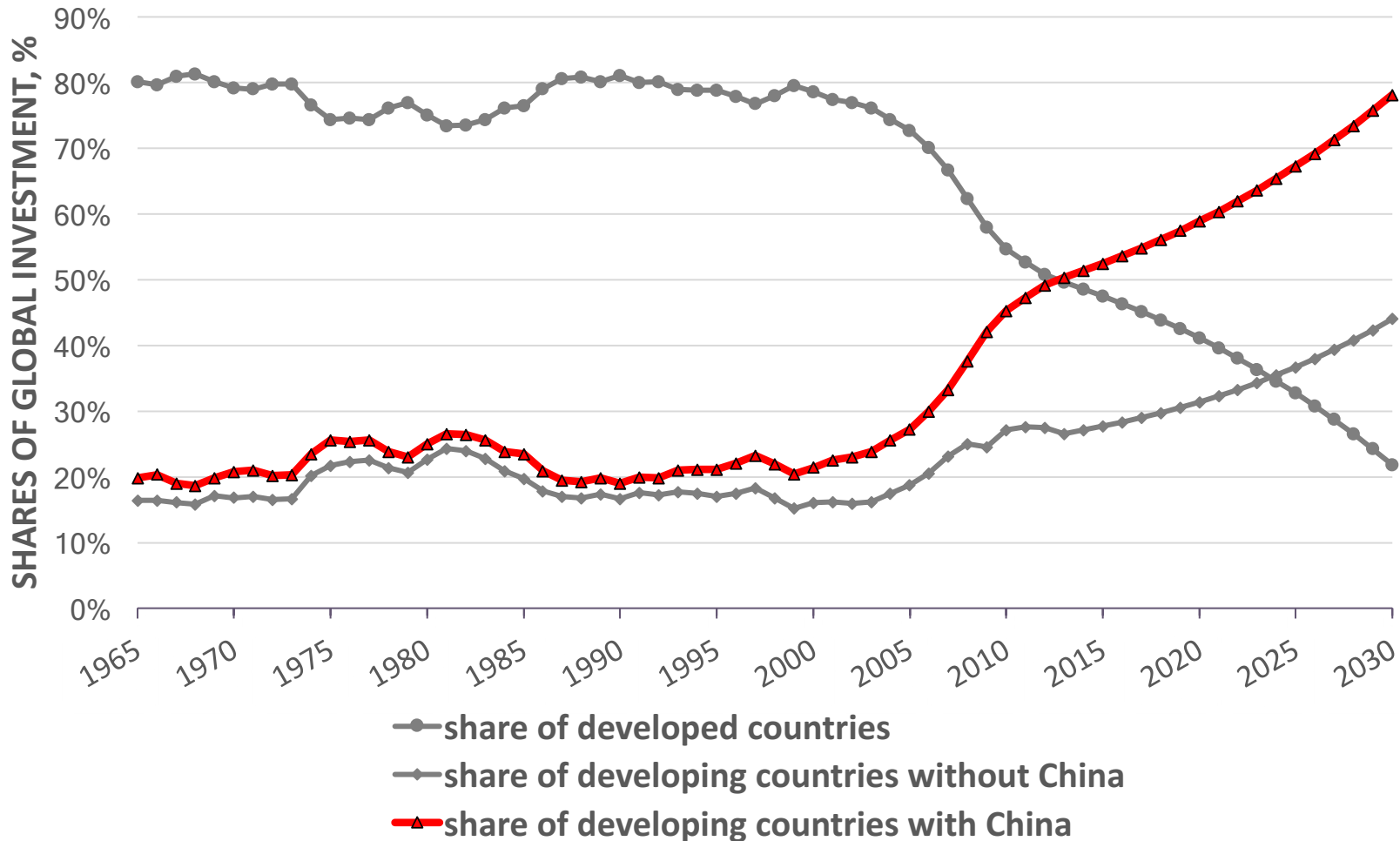
Source: Lin and Wang 2017b, based on UNCTAD data.

III. Future Prospect in Dev Financing

- ODA (official development aid) will decline in relative importance in the next decades;
- But OOF and OOF-like loans will grow.
- MDBs accounts for only 1% of global inv on infrastructure (Dollar 2016). They need to better utilize "patient capital"
- Setting up more Multilateral Investment Banks/Funds
- Expand the definitions of ODA, OOF, OOF-like loans (blended, like AIIB, CDB, EXIM bank), and OOF-like investments (Silk Road Fund, SIFs, and SWF, pension funds, other new funds).
- UNCTAD recognizes the roles of National Development Banks – and it is ahead of the curve. WB is late here.
- IFC new study on "leveraging" trillions for Green Dev

Projection of Global Investment 2015-2030

TREND OF GLOBAL SHARES OF INVESTMENT



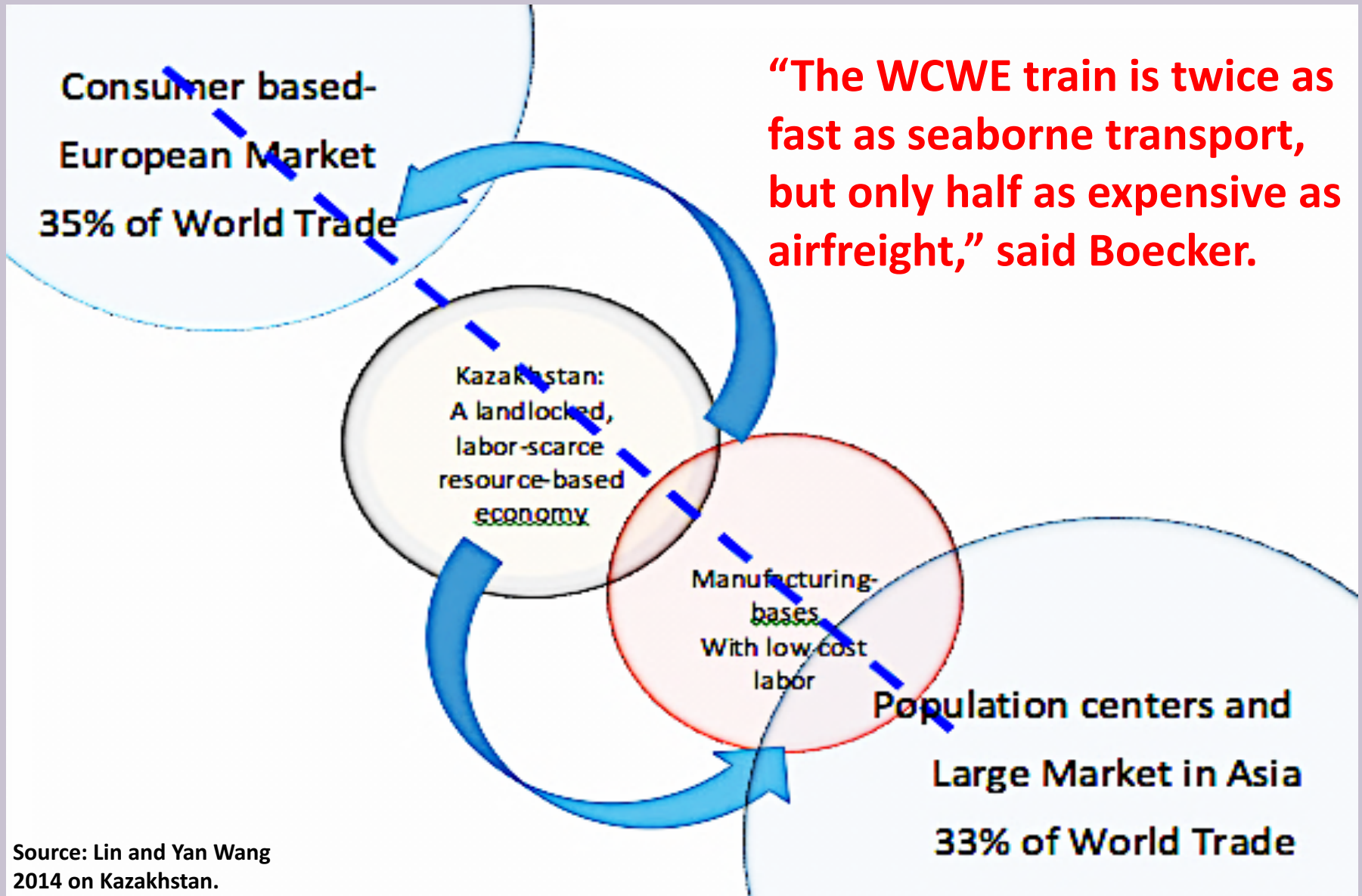
The Belt and Road: But how to finance it?



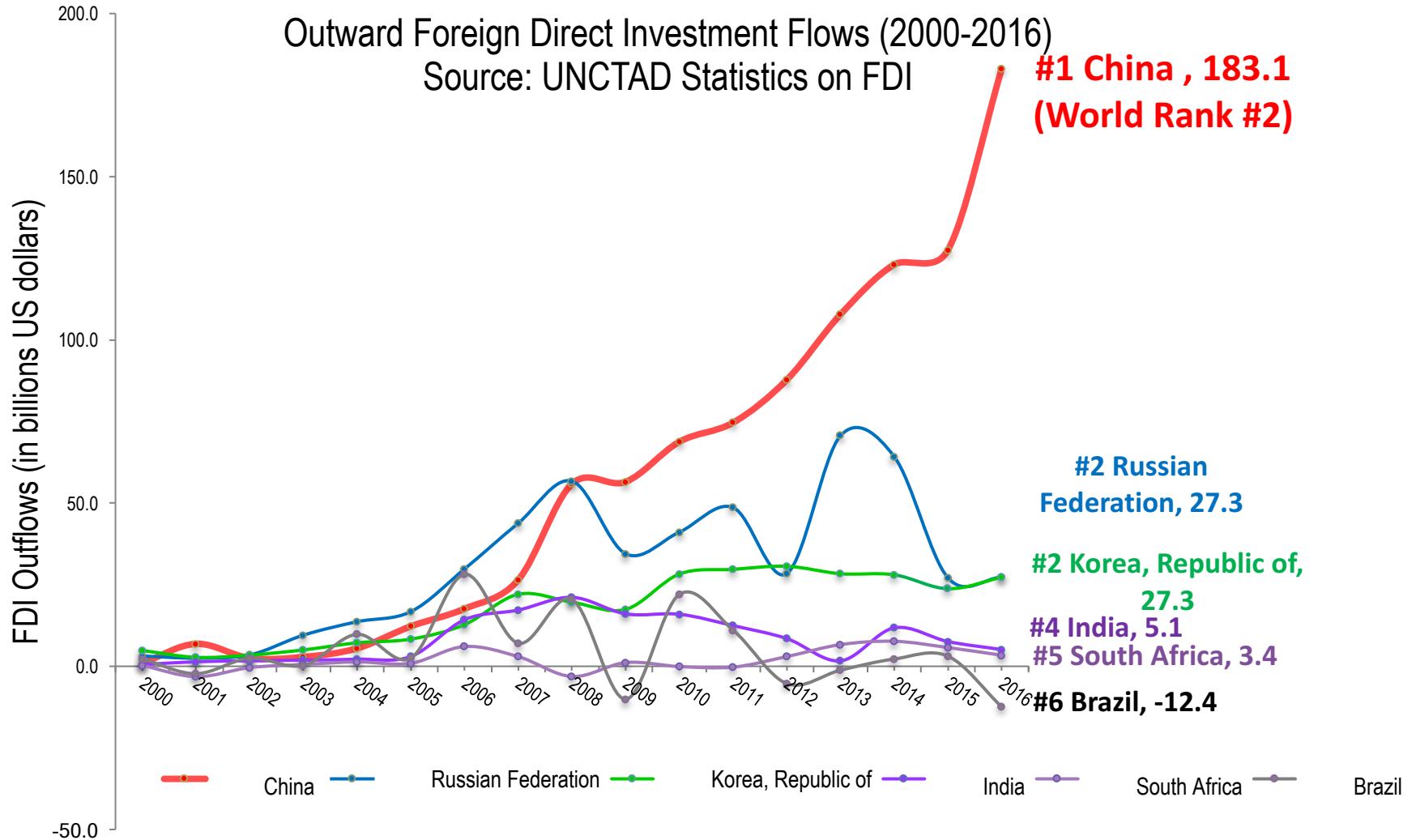
New commitments by China

- China initiates the AIIB in 2013 and is a founding country for NDB
- Set up a sustainable development fund of \$2 billion at UN
- China has set up a \$2 billion fund for South-South Cooperation.
- In the FOCAC meeting in South Africa, Xi committed to support Africa transformation by \$60 billion dollars in three years, consisting, grants, no interest loans, concessional and non-concessional loans
- China has set up a industrial capacity cooperation fund with a \$2 billion dollars
- The Belt and Road Initiative is **a large platform for co-investment (BRI)**, see Xi Jinping's speech May 2017. **How to finance the BRI:**
- **Wide Consultation (共商) ;**
- **Joint Construction (共建) ; and**
- **Shared benefits (共享) 。**

“Win-Win” for all 3 types of Economies



IV. Patient Capital: Outward FDI (OFDI) from BRICKS



Source: UNCTAD data. **China's OFDI reached \$183 bn in 2016 surging up 44%.**

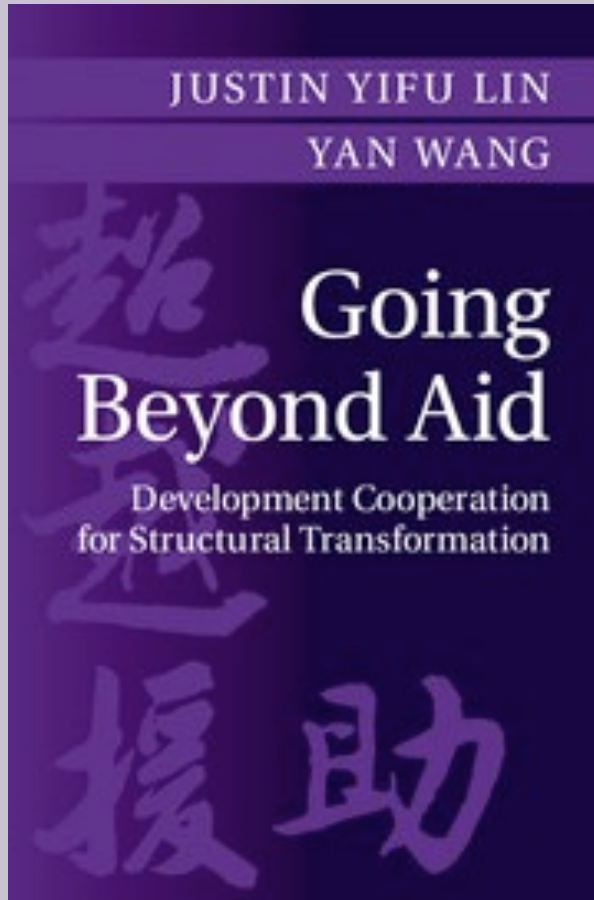
Chinese Firms Creating Jobs Overseas

Huajian Shoes: A Quick Win in Ethiopia

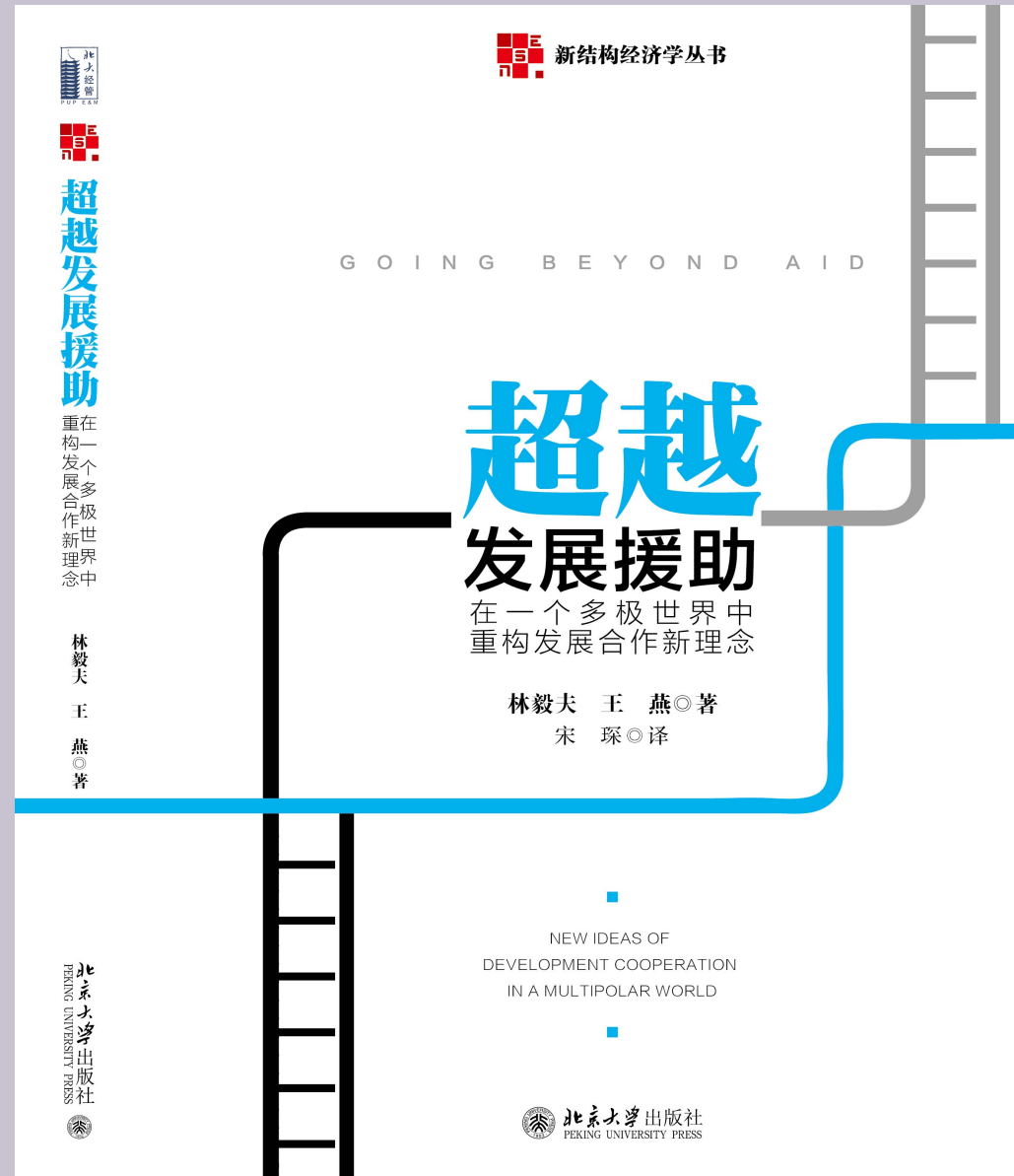


- Former PM Meles Zenawi went to China in March 2011
- Huajian decided to make the investment in October 2011 and recruited 86 local workers to be trained in China.
- In 4 months, export started in March 2012. **Huajian became profitable in October 2012.**
- Huajian employed 3,500 workers by the end of 2013.
- **See McKinsey June 2017: “Millions jobs have been created by Chinese firms in Africa”**

Our New Book



Cambridge University Press



Conclusions

- MDBs can continue to play important roles in transformation, if they 1) combine trade, aid, and investment like China does; and **2) Utilize Patient capital with long term orientation, suitable for enhancing global connectivity for global value chains.**
- **The WBG's new private sector window using IDA (managed by IFC) is a good way forward.**
- China is moving to a new multilateralism with new banks and funds. China is learning to become **“a responsible stakeholder”** in global affairs by supporting FfD via the New Dev Bank and AIIB and SRF, and more SIF/funds
- The **Belt & Road initiative is a platform for co-investment**, will create opportunities for all countries, **It is a win-win-win multilateral initiative.**

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