

**LOWY
INSTITUTE**

LOWY INSTITUTE
IPDC Indo-Pacific
Development
Centre

The case for an Indo-Pacific Economic Resilience Bank

ANALYSIS

**MICHELLE LYONS
ROLAND RAJAH
GRACE STANHOPE**

October 2024



LOWY INSTITUTE



The Lowy Institute is an independent, nonpartisan international policy think tank. The Institute provides high-quality research and distinctive perspectives on the issues and trends shaping Australia's role in the world.

Cover image: Multicolored circular chart (Andriy Onufriyenko / Getty)

Lowy Institute Analyses are short papers analysing recent international trends and events and their policy implications.

This report is produced by the Lowy Institute's Indo-Pacific Development Centre, which receives financial support from the Australian Department of Foreign Affairs and Trade.

Responsibility for the views, information, or advice expressed in this report is that of the authors. The contents of this report do not necessarily reflect the views of the Lowy Institute or the Australian Government.

Published 24 October 2024

31 Bligh Street
Sydney NSW 2000

[lowyinstitute.org](https://www.lowyinstitute.org)
+61 2 8238 9000

Version 2024-10-23.0

Contents

Key findings	4
Executive summary	5
Introduction	6
International finance in an age of economic insecurity	8
The public finance landscape in the Indo-Pacific	11
Creating an economic resilience bank in the Indo-Pacific	16
What the Indo-Pacific Bank would invest in	19
Designing a new bank that improves on the existing architecture	24
Taking the IERB forward	27
Acknowledgements	28
Acronym glossary	29
Notes	30

Key findings

- The world faces a triple crisis of economic insecurity, climate change, and stalled development, but there are deep tensions between the policy agendas being deployed to address them. We propose a new Indo-Pacific multilateral bank that can turn these tensions into complementarities.
- The bank can accelerate clean energy funding by mobilising new public and private capital investments, primarily for projects in the Indo-Pacific's developing economies. And it can create multilateral economic security by diversifying green supply chains to dilute the current excessive dependence on China.
- The bank would create benefits for both developing and advanced economies, fostering new industries and diversified, resilient markets while helping build the multilateral cooperation and capabilities needed to construct a more secure and sustainable world.

Executive summary

Eighty years ago at Bretton Woods, leading countries gathered to design an international financial architecture needed to sustain a broadly open world economy and global financial stability. The institutions that emerged remain important, but they are struggling to rise to the modern-day challenges posed by climate change and economic insecurity. The world faces a multi-trillion-dollar financing gap to reinvigorate stalling global development and create diversified green supply chains to enable a secure clean energy transition for all countries.

We propose the creation of a new kind of multilateral bank focused, at least initially, on the Indo-Pacific region. Our proposed Indo-Pacific Economic Resilience Bank (IERB) would adopt a multilateral economic security mission. It would combine the powerful financing model of a multilateral bank with the specialised capabilities of a dedicated green bank. IERB would mobilise fresh public and private capital to scale up investment in the clean energy transition, primarily in developing economies, while actively supporting the diversification of green supply chains, diluting China's current market dominance. The bank would help build new industries and diversified markets for both developing and advanced economies, while providing the multilateral cooperation and institutional capability needed for a more secure and sustainable world.

Introduction

The goal of the Bretton Woods Conference of July 1944 was to rebuild the global economy after the devastations of the Second World War and Great Depression. The international financial architecture that emerged, centred around the World Bank and International Monetary Fund (IMF), has continued to evolve and serve the world well, notwithstanding its imperfections.

Today, intensifying climate change, stalling poverty reduction, economic insecurity, high levels of public debt, rising costs of living, and great power rivalry are contributing to a less prosperous, more fragmented, and increasingly unstable global landscape. The work of the World Bank and other public financial institutions has never been more important, yet it has never been more difficult.

At the heart of the problem lies a multi-trillion-dollar financing gap to deliver on a range of vital global public goods, notably for climate and development. Reform of existing institutions, specifically the multilateral development banks (MDBs), is proceeding too slowly and is hampered by strategic rivalry. However, viewing the problem primarily as a climate and development financing gap is reductive. The world also confronts an economic security gap, which we define as the need for economic resilience to potential shocks, whether economic, environmental, or geopolitical in nature. Achieving multilateral economic security is itself a global public good. For instance, all nations can benefit from the enhanced resilience provided by more diversified global supply chains.

Among Western democracies, China's dominance of clean energy supply chains is viewed as a risk to economic security, with a growing array of policies designed to enhance their resilience to this dominance. Yet to the developing world, the emissions reduction and economic security objectives of Western democracies are often seen as coming at the expense of their economic advancement. Until that tension is resolved, Western democracies will continue to struggle with a lack of legitimacy among developing countries, including with important emerging powers such as Indonesia.

In other words, the world faces a triple crisis of economic insecurity, climate change, and stalling development, but policy agendas to address these issues are too siloed and, at times, in conflict with one another. The challenge for today's policymakers is to imagine an international financial architecture that can turn these policy tensions into complementarities.

We propose the creation of an Indo-Pacific Economic Resilience Bank (IERB) as a potentially paradigm shifting solution, reflecting the move away from old post-

Cold War orthodoxies of unfettered free markets and open multilateralism towards the new “Washington Consensus” of actively shaping markets, prioritising resilience, and creating new ways of working more closely with like-minded partners.¹ The bank would focus, at least initially, on the Indo-Pacific, given its centrality to the global net zero transition and manufacturing supply chains, and the presence of several established and emerging powers that could spearhead the initiative. The bank’s multilateral economic security mission would be its defining feature, setting it apart from existing institutions.

The IERB would seek to scale public and private investment in the clean energy transition primarily, though not exclusively, in developing economies while supporting the diversification of green supply chains, diluting China’s current market dominance. The bank would create benefits for both developing and advanced economies, catalysing new industries and diversified markets. In its structure, the IERB would harness the powerful financial model of the existing MDBs as well as other capabilities such as in project preparation and policy advice. Operationally, it would seek to model the successful experience of national green banks, such as Australia’s Clean Energy Finance Corporation (CEFC), with specialised and agile investment capabilities and a transparency and knowledge sharing focus.

It is imperative to ensure that a new institution does not simply end up competing with existing ones for scarce public capital. This is a risk. However, our proposed bank offers the possibility of unlocking fresh public capital in pursuit of global public goods. By directly advancing economic security as a global public good, the IERB would address one of the most serious policy concerns of Western governments — from whom the bulk of additional public capital would need to come — while aligning this with the world’s climate and development objectives. Recent industry policies such as the United States Inflation Reduction Act (IRA) prove there is political will to spend big on economic security measures. The IERB would be a multilateral version.

Notably, the IERB would have important advantages over similar but bilateral versions of our proposal, such as the Clean Energy Marshall Plan proposed by former director of the US National Economic Council in the Biden administration, Brian Deese.² Developing countries would be unlikely to support efforts that preference building clean energy manufacturing capacity in the United States, or other major economies, rather than in their own countries. It is also unlikely the United States could sufficiently subsidise domestic manufacturing to be cost competitive with Chinese products outside of a few niche areas. Whereas the developing Indo-Pacific economies that would be supported by the IERB would be well placed to produce at more affordable and competitive cost, reducing the price of achieving a more secure clean energy transition for all countries.

International finance in an age of economic insecurity

Sustained trillion-dollar investments in renewable energy, storage, energy efficiency, and grid infrastructure are required over coming decades to meet the world's climate and development goals. Latest estimates suggest additional global investment of US\$4.5 trillion per year is needed to keep the 1.5oC temperature goal of the Paris Agreement in reach.³ Emerging markets and developing countries outside of China are estimated to need an additional US\$1.8 trillion of investment a year by 2030 for climate and nature-related investments, with a further US\$1.2 trillion for other sustainable development priorities such as in health and education.⁴

The powerful financing model of the existing MDBs can notionally be expanded to tackle both climate and development; efforts in this direction are underway.⁵ But escalating geostrategic rivalry presents major complications.⁶ . Moreover, the MDBs are large bureaucracies with competing shareholder interests, and have proven difficult to reform at the speed and scale required.

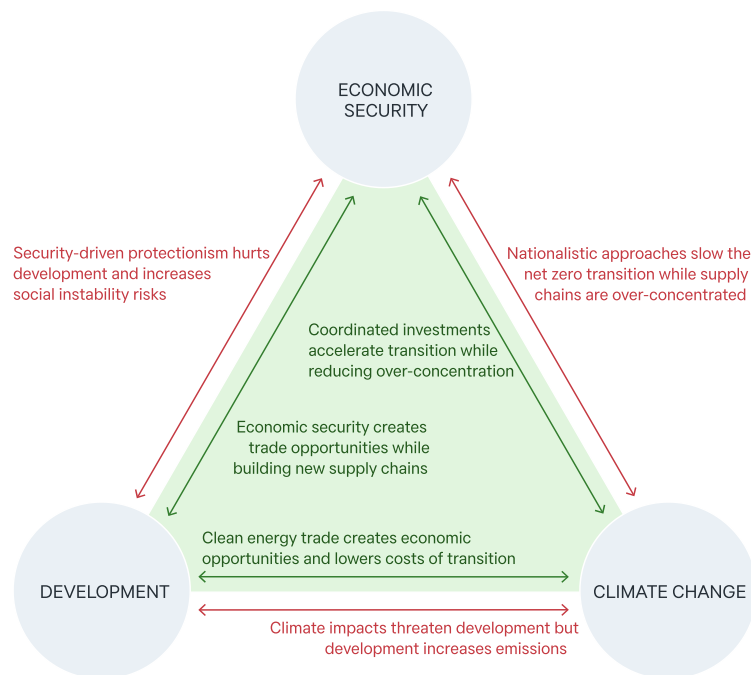
Beyond climate and development, the world also faces an economic security gap. Economic security is a field of study focused on vulnerabilities and responses to the use of economic instruments by states for geopolitical leverage, through carrots, sticks, or “weaponised interdependence”.⁷ In this paper, we focus on economic security as resilience, and imagine how a new bank could enhance multilateral resilience to economic, environmental, and geopolitical shocks.

China's dominance of critical mineral and clean energy supply chains is viewed as a threat to economic security in Western democracies. China currently accounts for 80 per cent of global manufacturing capacity for solar photovoltaic modules, 75 per cent for batteries, and around 60 per cent for wind turbines.⁸ It also has a monopoly over the processing of many rare earth elements.⁹ For Western democracies, diversification of clean energy and critical mineral supply chains is vital to building resilience to supply shocks. Excessive concentration of global production capacity in any country exposes international supply chains to disruption due to economic shocks such as extreme weather events, pandemics, or other disasters. It also exposes countries to geopolitical shocks. From oil in the 1970s to natural gas in Europe after Russia's invasion of Ukraine in 2022, there is a long history of energy trade being weaponised by states. Clean energy trade to build the net zero world is also vulnerable to being weaponised.

The existing international architecture cannot respond effectively to these concerns. In the absence of a fit-for-purpose framework, there has been a proliferation of protectionism, domestic industrial policies, and fragmented bilateral financing efforts. Industrial policy is undergoing a global resurgence as countries seek to capture new markets emerging from the net zero transition while competing with the domestic subsidies offered by the biggest powers through the US Inflation Reduction Act, Made in China 2025 initiative, EU Net Zero Industry Act, and others. Yet the additional investment generated through industry policies is at risk of being offset by an increasingly fragmented global trade system, beset with tariffs and other punitive measures. Since 2020, almost four times as many harmful trade policy interventions than liberalising measures have been introduced globally.¹⁰ Poor countries stand to lose the most from these protectionist measures.

The emissions reduction and economic security policy objectives of Western democracies ring hollow if this comes at the expense of development, including via protectionism and inadequate financial support. Adequate climate finance provision is vital to the legitimacy of advanced economies in the eyes of the developing world, after failing to meet the goal of US\$100 billion per year in climate finance by 2020, set in Copenhagen in 2009.¹¹

Figure 1
Turning tensions into complementarities



Source: Lowy Institute

In other words, there are presently deep tensions between the policy objectives of economic security, climate change, and development (see Figure 1). Existing international financial institutions are not designed to operate at the nexus between economic security, climate, and development. And nor should they; they have other important functions. A new kind of multilateral financial institution is needed to bridge the gap.

Adopting a multilateral economic security approach is preferable to relying on unilateral measures by great powers to address these three policy domains. Economic security, in particular, needs to be elevated beyond national security to a shared or transnational goal akin to promoting development or alleviating climate change. Achieving economic security by building an expanded network of diversified supply chains with enhanced levels of trust would be far more viable and cost effective than domestic reshoring or friendshoring among a narrow group of partners.

Building multilateral economic security will require solutions that appeal to both developed and developing countries. It also requires an investment focus that sits outside the “high fence” guarding of industries considered critical to national security. Investments focused on achieving climate and development goals provide adequate scope for deepening multilateral cooperation while meeting these requirements.

The public finance landscape in the Indo-Pacific

Indo-Pacific countries are home to more than 2.5 billion people and account for 40 per cent of global GDP and 28 per cent of global goods trade.¹² The region is expected to grow to almost three billion people by 2050. This growth will underpin large increases in energy demand, which will be a significant challenge to manage, especially for developing countries that have committed to decarbonise their energy supply while adding new capacity. No country has ever transitioned to high-income status while reducing emissions.¹³ Yet even as they are expected to rapidly decarbonise for the global public good, the voices of developing countries in the Indo-Pacific are under-represented in key multilateral financial institutions in the region.

At present, financing the net zero transition is off track in the region, as it is the world over. Renewable energy installations in Southeast Asia are languishing. Electricity capacity growth is forecast to be 63.1 GW over the next five years, well below the estimated 229 GW of new wind and solar required in the region to keep alive the net zero target underpinning the Paris Agreement.¹⁴ Pacific Island countries, on the front lines of climate change, are unable to secure the adaptation as well as Loss and Damage financing necessary to ensure the survival of their communities. Even the United States, with trillions of dollars of capital flowing from the Inflation Reduction Act, is not on track to meet its 2030 emissions reduction target.¹⁵

Infrastructure is generally challenging to fund because assets are illiquid and expensive as well as deliver public benefits that often fall outside private sector considerations. Delivering infrastructure projects in developing countries adds more layers of complexity, including problems related to high levels of public debt, poor credit ratings, exchange rate risks, legal and regulatory barriers (e.g. limiting private investment), difficult business environments, corruption, and generally inadequate risk-adjusted financial returns for private investors.

The existing development banking architecture was created to offer both financial and technical assistance to overcome these barriers. However, net zero industries face a range of additional complexities.¹⁶ These include the failure to adequately price carbon and other environmental externalities, high upfront costs (for renewable energy technologies such as solar and wind), information barriers related to rapidly emerging industries and technologies, entrenched state-owned energy firms, and existing technology lock-in. This goes some way to explaining why institutions traditionally focused on development outcomes,

such as the MDBs and development finance institutions, have struggled to scale up their climate change investments. Policy certainty, innovation, and transparency are especially important to grow net zero investments. Institutionally, this requires a difficult-to-achieve combination of public capital, policy knowledge, financial nous, and clean energy expertise. Skills and capacity issues are also increasingly prevalent barriers to deploying climate change finance. Ensuring equitable knowledge spillovers and technology transfer, along with investments in skills and capacity building, must be a far larger focus of climate and development finance in the region.

The following sub-sections discuss how the existing public finance landscape fails to provide the scale of climate and development finance required, or effectively address economic security.

Multilateral development banks

At the heart of the international financial architecture in the Indo-Pacific are the major MDBs, namely the World Bank, Asian Development Bank (ADB), and more recently, Asian Infrastructure Investment Bank (AIIB). Core to their success is their powerful financial model, which allows them to leverage a small amount of paid-in capital into large-scale lending by tapping into international capital markets. The World Bank currently leverages each dollar of paid-in capital into about five dollars in financing for developing economies.¹⁷ As loans are repaid, more loans can be made and profits used to support concessional financing to vulnerable countries. With US\$19.2 billion of paid-in capital, the World Bank has been able to provide more than US\$750 billion in loans over its lifetime.¹⁸

The power of the MDB financial model relies on two key factors. First, MDBs enjoy preferred creditor status, whereby they are first in line for repayment over other creditors.¹⁹ Second, in addition to paid-in capital, MDBs have access to large volumes of callable capital, notably from governments that themselves have strong credit ratings.²⁰ On this basis, MDBs are able to borrow cheaply from global capital markets using their AAA credit rating and then lend to developing economies on similar terms, after covering basic administrative costs.

Importantly, the World Bank and ADB operate large facilities for poorer and more vulnerable countries, providing a mix of highly concessional loans and a smaller amount of grants. This results in lower but still strong degrees of leverage compared to the regular MDB lending operations described above. For instance, the World Bank's International Development Association is able to provide 3–4 dollars in financing to developing economies for every dollar it receives in donor funding.²¹ However, concessional financing facilities differ from non-concessional financing in the requirement for periodic financial replenishments from donors, usually every three years.

A few other features of the MDB financing model are worth noting. MDBs can generate further leverage by using their financing to mobilise additional private capital at the project level. At present, the MDBs mobilise an additional 0.6 dollars of private investment for every dollar of their own lending.²² MDBs play a more comprehensive role than other public financial institutions, combining their financing with a range of other services, including technical assistance, project preparation, policy advice, research activities, and in-country staff. They also play an important agenda-setting role through their convening power. MDB activities supporting economic reform are equally important to these institutions' financing role and can work to crowd-in additional private investment.

Despite their many strengths, MDBs face increasing calls for reform.²³ Having promised “billions to trillions”, MDBs have struggled to use their public financing to mobilise large amounts of additional private investment. While a major part of the problem is one of unrealistic expectations, MDB structures have also inhibited progress — for example due to excessive risk aversion, lack of transparency around project risks, internal incentives favouring public sector projects, and organisational silos. Other problems include slow project processing times, burdensome procedures, and inadequate responsiveness to client priorities.

The most effective way to achieve greater impact via the MDBs would be a substantial general capital increase as well as increased donor contributions to expand concessional MDB financing. But a general capital increase is fraught due to geopolitical concerns regarding the increased voting influence this would offer China, especially at the expense of big European countries. Other MDB reform options include greater use of callable capital and/or guarantees, issuance of a hybrid capital non-voting asset class, deployment of an originate-to-share model, incorporation of vulnerability into funding eligibility criteria, and introduction of climate resilient debt clauses.

Even in the unlikely event that these initiatives were all enacted, MDB reform will be insufficient to solve climate and development funding challenges in the Indo-Pacific, or indeed globally. A need for credibility has seen even the newer disruptors — the AIIB and the New Development Bank — conform to the World Bank template, replicating its challenges as much as its successes.

Bilateral financing agencies

Bilateral Export Credit Agencies (ECAs) and Development Finance Institutions (DFIs) are increasingly influential public financial actors in the Indo-Pacific that are being leveraged into climate, development, and economic security policy efforts.

ECAs primarily focus on advancing bilateral economic interests, providing trade credits, loan guarantees, insurance, or direct financing to facilitate trade and investment.²⁴ However, China, Japan, South Korea, the United States, and Australia all increasingly use their ECAs to provide something adjacent to development finance, especially for infrastructure finance in middle-income countries. ECAs are also able to work with state-owned enterprises (SOEs) in developing countries, leveraging government-to-government links to reduce risk. ECAs are increasingly focused on enhancing economic security. For example, Export Finance Australia provided financial support to lithium producer Pilbara Minerals to expand its mining operations as a contribution to enhancing global battery supply chain resilience.

DFIs are traditionally more development-focused institutions using a similar set of financial instruments to ECAs to promote private sector investment in developing countries. DFIs are, however, increasingly deployed by governments to undertake economic security-related investments. For example, the US International Development Finance Corporation has recently financed substantial supply chain diversification investments in solar panel manufacturing and critical minerals.²⁵

Both ECAs and DFIs, however, have been criticised for their lack of global governance credentials and weak transparency.²⁶ As transaction-focused institutions, they also lack the broader project preparation, policy reform, and capacity building functions of the MDBs that are often vital to expanding the pipeline of bankable investment projects.

Green banks

A range of national and subnational public green banks operate in the Indo-Pacific, including in Australia, New Zealand, and the United States. They mobilise private finance for clean energy investments, with a narrow investment remit that allows them to target net zero investment barriers. They have been successful in sectors where other public financial institutions have struggled, such as energy efficiency. For example, the Clean Energy Finance Corporation committed AU\$3.5 billion for energy efficiency measures in Australia from 2015–22, including a range of investments in energy efficient, low-income community housing.²⁷

While green banks provide lessons about how to scale investment in new renewable energy industries, they are still nascent institutions and mostly operate in developed countries with advanced, liquid financial markets, and virtually no use of grant finance. They would face significant additional challenges in achieving their goals in developing countries unless they were able to deploy concessional financing and greatly scale up their project preparation and capacity building functions. While green banks do not operate

multilaterally, there would be benefits in taking their best elements — their focused investment remit, catalytic investment function, and transparency and knowledge sharing obligations — and embedding them in a multilateral bank.

Other public finance provision in the Indo-Pacific

Several multilateral green funds provide climate and development finance in the Indo-Pacific. The most important of these, the Green Climate Fund, plays a key role in the provision of adaptation and grant finance, but it has been beset with governance issues since its inception and has struggled to deploy finance rapidly. There are several ad hoc climate and development finance initiatives in the region that sit outside formal institutions. The Just Energy Transition Partnerships signed by the G7 with Indonesia (US\$20 billion, of which \$10 billion is public finance and \$10 billion will be mobilised by the private sector) and Vietnam (US\$15.5 billion, of which \$7.75 billion is public finance and \$7.75 billion will be mobilised by the private sector) uses a mix of government and private finance to reduce dependency on coal and scale up renewable energy investment. However, these arrangements have thus far struggled to make progress. There is also the Private Infrastructure Development Group, which administers the IPEF Catalytic Capital Fund under the Indo-Pacific Economic Forum, which aims to foster several billion US dollars in private sector investment. The G7's Partnership for Global Infrastructure and Investment has made some clean energy investments in the Indo-Pacific. The Quad, which began as a regional security dialogue between the United States, Japan, India, and Australia in 2004, has more recently directed its attention to providing public goods and services in the Indo-Pacific, including for climate change. The Minerals Security Partnership is seeking to promote information exchange and co-financing for critical mineral investments among a coalition of 15 countries and the European Commission.²⁸ None of these arrangements, however, provides the scale of finance, multilateral architecture, or institutional capability needed to fully address the problem.

Creating an economic resilience bank in the Indo-Pacific

Existing efforts cannot close the climate and development finance gap in the Indo-Pacific or globally. Meanwhile, there is an institutional and financing gap for economic security that remains unaddressed at the multilateral level (see Figure 2). Creating a new kind of multilateral bank to simultaneously address the world’s economic security, climate, and development challenges could therefore be the solution.

Figure 2
The multilateral economic security governance gap

	IERB	Green banks	State investment banks	Development finance institutions	Export credit agencies	Multilateral development banks	Multilateral green funds
Economic security	●			○	●		
Mobilising private finance	●	●	○	●	●	●	○
Climate change mitigation	●	●	○	○	○	●	●
Climate change adaptation	○	○		○		●	●
Development	●		●	●	○	●	●
Trade	●		○	●	●	○	
Capacity building	●	●	○	○		●	○
Knowledge sharing	●	●				●	○

● Primary mission ○ Secondary mission

Source: Lowy Institute

The most fruitful starting point for the creation of such a bank could be the Indo-Pacific, given the region's centrality to the global net zero transition (as the largest geographic source of growing greenhouse gas emissions) and international manufacturing supply chains.

The presence of both established and emerging powers is crucial to the policy proposal. As is, for reasons of legitimacy and equity, providing members who identify as part of the Global South a strong voice in the governance of the institution. However, achieving a strong credit rating will require the new bank be primarily backed by advanced economies.

The Indo-Pacific is already home to several policy groupings that demonstrate the feasibility of creating a new bank focused on the intersection of economic security, climate, and development, including the aforementioned Quad. Another example is the Indo-Pacific Economic Framework (IPEF), a US-led initiative with 14 regional members, designed to support fair and resilient trade, diversify and secure key supply chains, and support broader economic development and decarbonisation aims.²⁹

Establishing an Indo-Pacific Economic Resilience Bank (IERB) would enhance economic security in the region in several ways. First, it would provide an avenue to multilateralise the development of new supply chains for critical minerals and the net zero transition, increasing the sourcing and production of vital goods within a trusted group of economies as an alternative to overreliance on protectionist or nationalist policies. This could build on existing work by the IPEF Supply Chain Council.³⁰ Second, it would offer a more transparent development finance alternative to China's Belt and Road Initiative, providing market signals and incentives to improve accountability and transparency practices in lending.

While its primary investment focus would be the Indo-Pacific, there is no reason the IERB should be limited by geography, given its goals. A more expansive membership would allow for more diversified and resilient supply chain networks. The IERB's membership could be open to all countries that share its objectives, especially in terms of the desire to build mutual economic resilience. Once an initial group of founding members are agreed, further members could be admitted on a case-by-case basis subject to agreement from existing members that adding the prospective member would bolster the mutual economic security of the group. Major European powers would be strong candidates as advanced economies, while countries in Africa and Latin America would be relevant in terms of their ability to help diversify critical mineral supply chains.

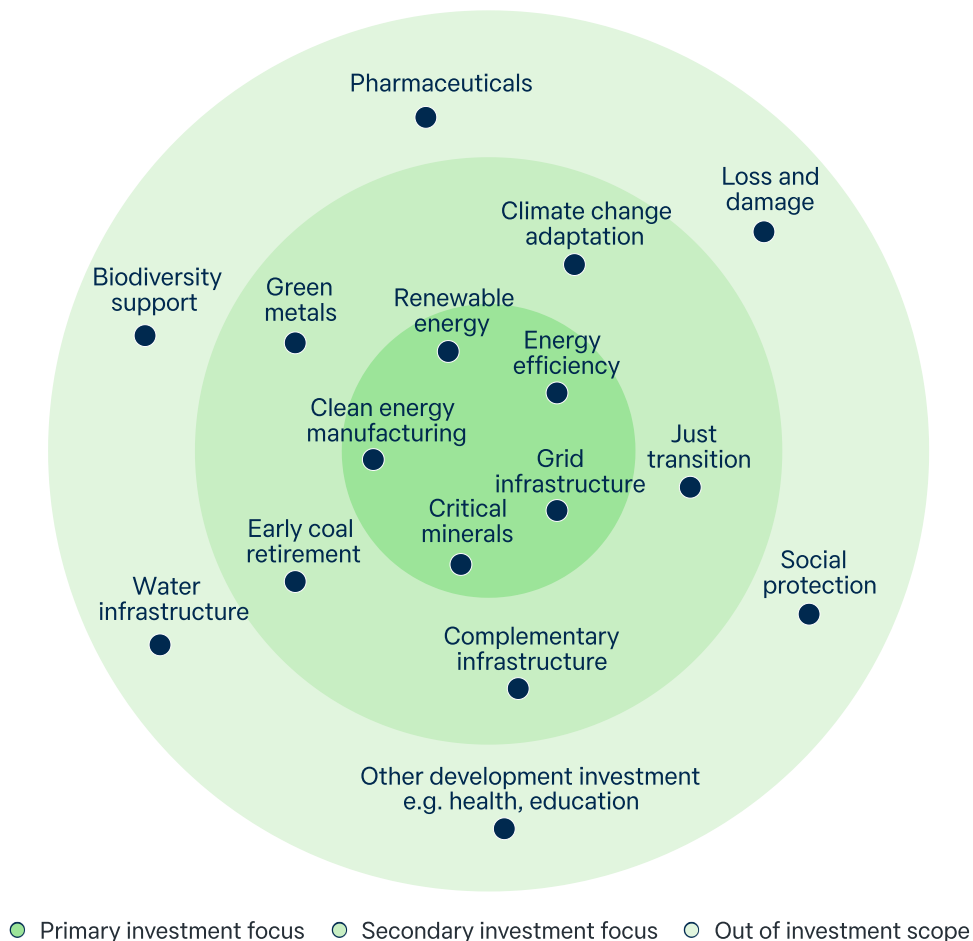
One potential point of sensitivity would be the relationship between the bank and China, should it wish to join. The IERB should not be explicitly established in opposition to, or even necessarily to the exclusion of, China. Many countries

in the region would be averse to joining such a group if China's exclusion were made an explicit rationale for its creation. IERB membership would be open to all countries, including in principle to China, subject to agreement from existing members about a prospective entrant's ability and willingness to contribute to the grouping's triple objectives. Beyond this foundational issue, there is plenty of precedent for how to manage sensitivities. The IPEF provides a prime example, whereby China is outside the group and has not sought to join, while many countries in the region participate. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is another example, with many countries willing to join a trade pact widely seen as originating as an initiative by the United States to counter China's gravitational pull in the region. In the case of the CPTPP, China has formally applied to join but will require the consent of existing members which, given legitimate concerns about China's willingness to adhere to CPTPP rules and principles, has seen its application remain stalled.

What the Indo-Pacific Bank would invest in

The bank would focus on the intersection of economic security, climate change, and development. While there are trade-offs between these objectives, the IERB would invest where these three goals are complementary and require investments to meet minimum standards across all three policy domains. For example, if a critical mineral processing facility were powered by a new coal-fired power station, the bank would not fund its operation.

Figure 3
Indo-Pacific Economic Resilience Bank's possible investment focus



Source: Lowy Institute

The IERB's primary investment mandate should encompass clean energy manufacturing, renewable energy, grid infrastructure, energy efficiency, and critical mineral manufacturing (see Figure 3). This would strike a balance between the focused mandates of green banks and the greater economies of scale and diversification of the MDBs. The bank should have scope to invest in climate change adaptation, complementary infrastructure (e.g. transport infrastructure), early coal retirement, green metals, and just transition support as areas of secondary importance to its mandate. It could also consider broadening its investments to include other supply chains critical to multilateral economic security, such as pharmaceuticals.³¹ However, predominantly development-focused investments, for example in water, health, or education, would be out of scope due to the comparative advantage of other institutions.

The bank's investments should be focused on developing countries, as this is where the greatest climate, development, and supply chain diversification gaps exist. Consideration should be given to the merits of developed donor countries borrowing from the bank, as occurs with some MDBs, such as the European Investment Bank. This could simplify the politics of joining and capitalising the bank for donor countries. It would also improve knowledge sharing and end-to-end supply chain resilience. Rather than competing with existing green banks or other similar institutions in developed countries, the IERB could act as a co-financier. This would increase its volume of non-concessional loans, expanding and diversifying its investment portfolio. It would provide useful additional finance for net zero investments while facilitating knowledge and data sharing between green banks and the IERB.

The most novel element of the IERB would be its investment in projects to help multilateralise the development of new clean energy supply chains. The facility could for instance draw on the sector-specific plans developed by the IPEF Supply Chain Council and member countries to help finance the development of node-to-node supply chain projects across the Indo-Pacific. Box 1 discusses the region's potential regarding electric vehicle manufacturing.

One especially critical but sensitive question again pertains to China's indirect involvement in the bank's projects. While Chinese suppliers would be a controversial and delicate issue in some quarters, they are currently vital as the lowest-cost producers of clean energy technologies. China has overcapacity of key clean energy technologies, and the bank could purchase excess quantities of goods such as solar panels cheaply to accelerate deployment of commercial technologies across the region. The IERB would need to tread a narrow path between drawing on China's dominant position as a low-cost manufacturer and imposing appropriate safeguards with its involvement in the institution.

In practice, this means IERB procurement would be open to Chinese sub-contractors to deliver projects where they are able to meet the bank's environmental, social, and governance (ESG) standards and where it is not

contrary to security imperatives. This could be subject to some degree of preferencing for alternative suppliers in line with the bank's mission to diversify green supply chains. Over time, these preferences and the stringency of ESG standards would ratchet up to focus more on procuring from member states in line with increases in their productive capabilities.

Another key reason to allow involvement from non-member states is technology transfer, which will be vital to the IERB achieving its mission. In the case of China, the bank could adopt a similar approach to the European Union, using its procurement rules to encourage Chinese firms to form joint ventures and share technology in key areas.³²

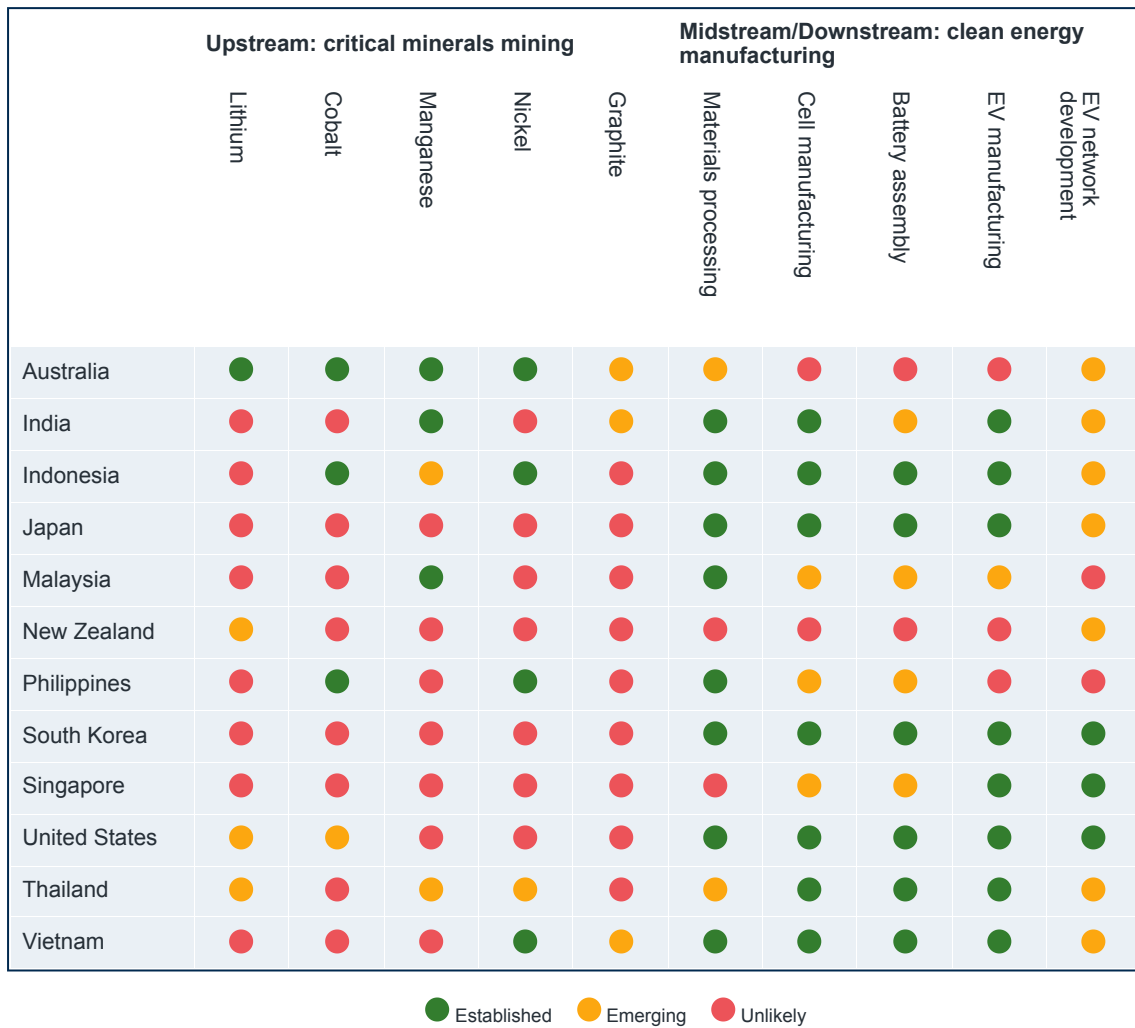
Box 1: Mapping potential electric vehicle manufacturing capability across Indo-Pacific countries

Globally, the International Energy Agency projects half of all cars sold in 2035 will be electric vehicles (EVs).³³ This requires a reconfiguration of existing vehicle supply chains, sparking fierce competition among state actors seeking to capture a share of this highly profitable industry.

EV production can be divided into upstream mining of critical minerals and mid-stream and downstream battery and automotive manufacturing processes. EVs rely on a range of critical minerals in their batteries, which typically contain lithium, cobalt, manganese, nickel, and graphite. Many Indo-Pacific countries have established industries in at least one component of the EV supply chain (see Figure 4). This illustrates the potential for an Indo-Pacific bank to catalyse the development of node-to-node manufacturing capabilities across a range of critical mineral and clean energy technologies. There could also be opportunities for universities and research institutes in the region to bid for grant funding from the bank and collaborate to address specific research challenges in scaling up key technologies and supply chains. The IERB could be the institutional focal point for liaison and knowledge sharing among these centres.

Figure 4

EV critical mineral and clean energy manufacturing potential in the Indo-Pacific



Source: Lowy Institute

The new bank would need to use a full range of financial instruments to deliver on its investment mandate, including concessional and non-concessional loans, equity investments, sustainable bonds, guarantees, and grants.

The IERB should maintain a strong focus on mobilising additional private investment. This should include the ability to work with state-owned firms and financial institutions. Doing so is a necessity given the role state firms play in the political economy of the region. It also provides a basis for risk sharing with governments (given explicit and implicit government guarantees) and serves as an entry point for supporting improved governance and regulatory standards. This would require the bank to develop the capacity to engage with these

institutions and monitor and oversee investments closely. If done well, it could also significantly enhance the bank's ability to mobilise additional private co-investment.

The new bank would need the ability to provide significant concessional loan and grant financing. This will be critical in a number of circumstances relevant to the IERB's mandate, such as when financing riskier projects (e.g. for more nascent technologies or markets), and projects that require larger public subsidy for non-commercial benefits in line with the bank's mission (e.g. substantial emissions reductions or building critical supply chain nodes). Similarly, a grant-based technical assistance fund would be necessary to support activities that would have a high pay-off in line with the bank's mission (e.g. adopting new technologies and policy and regulatory approaches, and, for project preparation).

The bank could also channel its funds through government budgets in ways that help to further share costs and de-risk investments (e.g. government equity injections into state-owned firms and investment vehicles undertaking green investments).

Designing a new bank that improves on the existing architecture

The design of a new bank should aim to learn from the experiences with existing public financial institutions, in particular taking the best parts of the MDBs and green banks, adopting the most promising innovations, and avoiding their weaknesses to the extent possible.

Better and more legitimate governance

Establishing the IERB provides an opportunity to learn from and improve on the governance structures of existing multilateral financial institutions. First, borrowing and donor member-countries should be given more balanced representation on the bank's board of directors, in contrast to the current practice of most major MDBs, where donor members have the dominant voting rights based on their capital contributions. Ensuring adequate voice for developing countries will be important to the legitimacy of the bank but also its performance, since the bank will predominantly operate in developing economies. This will require major shareholders accepting a separation between the governance of the IERB and the capital contributions of specific countries.

In a similar vein, the president and senior management of the new bank should be chosen on a meritocratic basis, avoiding the presumptive gentlemen's agreement at institutions such as the World Bank, International Monetary Fund, ADB, and AIIB whereby the president must be an American, European, Japanese, or Chinese national respectively, while senior management positions operate by an informal system of national quotas. A meritocratic approach to appointing board directors and the possibility of a non-resident board, with board members located in their respective home countries, would be other important options to consider.

Maximising the financial firepower of the IERB

It would make sense for the IERB to adopt the powerful financing model of the MDBs, given their proven ability to generate substantial leverage while retaining a strong credit rating. This would require the bank to operate with preferred creditor status when providing loans. To meet its investment mandate, the IERB

would require the ability to provide both non-concessional and concessional financing. The bank would therefore need to operate based off a combination of paid-in capital, callable capital, and regular financial replenishments from donor governments. In addition, the bank could adopt other financial innovations such as using hybrid (non-voting) capital, portfolio guarantees, and originate-to-share asset securitisation. It would also be a strong candidate for deploying funding from measures such as Carbon Border Adjustment Mechanisms or levies on windfall profits from fossil fuels.³⁴

Advanced economies would need to provide the bulk of public capital to support the new bank, for three reasons. First, basic equity and capacity to pay. Second, because the IERB would focus on economic security, which is principally the concern of advanced economies. Third, for the new bank to obtain a strong credit rating, the bulk of callable capital would have to come from advanced economies with strong credit ratings. Major emerging powers such as India and Indonesia could focus on making important financial contributions via other instruments, such as being donors to the IERB's concessional financing facility and purchasing securitised assets from the bank to free up its balance sheet.

Prioritising knowledge sharing and transparency

While the IERB should share some features with MDBs, it should be designed to operate more like a multilateral green bank, developing highly specialised institutional expertise and mandating knowledge sharing activities that can help catalyse new markets and investment. In this way, the bank should learn from the experiences of national clean technology institutions such as ARPA-E in the United States, the Australian Renewable Energy Agency (ARENA), and the CEFC. Conversely, the IERB needs to avoid the transparency and data sharing problems that have afflicted the MDBs.

The IERB should mandate knowledge sharing in its Articles of Agreement to maximise the value created through its activities. Mandated knowledge sharing has been core to ARENA and the CEFC's success in scaling up clean technology markets such as utility solar. It increases transparency around investment risks while giving the private sector the information and confidence it needs to scale and sustain new markets. The provision of IERB finance should be contingent on knowledge sharing to develop a more nuanced understanding of segment-specific investment risks in clean technology and critical mineral supply chains. Similar to the approach taken by green banks, this would enable the IERB to invest with a greater risk appetite than existing institutions, but also encourage additional capital by sharing this knowledge with private investors, MDBs, ECAs, and others. The bank would disclose disaggregated but anonymised project-level investment data, including private capital mobilisation, refinancing, and defaults. This practice would protect commercial-in-confidence

sensitivities but engender investor confidence by publishing both financial and technical insights from projects, which would diffuse insights across the Indo-Pacific and beyond. It would provide a key point of difference from the MDBs where efforts to enhance transparency through the Global Emerging Markets (GEMs) Risk database have been progressing slowly.³⁵

The IERB could establish a grant-based Grand Challenge fund to encourage collaborative research, development, and deployment cooperation among its members. Grand Challenge schemes set ambitious but achievable goals that harness science, technology, and innovation to help solve important global problems. They are generally multi-sector, multi-disciplinary schemes that can be hosted by universities, businesses, or non-government organisations. An IERB Grand Challenge fund could announce specific research initiatives, such as an EV manufacturing research hub, which could be periodically funded by donor countries with one-off grant funding rounds.

Navigating an uncertain new policy agenda

The IERB would need to develop new processes and metrics for screening, managing, and evaluating investments to ensure complementarity between the economic security, climate, and development goals of the bank and overall investment impact. To support this, the bank would benefit from a strong institutional learning function. This could involve establishing an entity like the World Bank's Independent Evaluation Group. However, the IERB would need to pioneer new evaluation methodologies, especially related to economic security, which remains less well-defined than climate or traditional development objectives and lacks key evaluation metrics. It could also seek to enhance transparency around how the bank captures value for the institution, its donors, and recipients.

Taking the IERB forward

The original Bretton Woods Agreement showed bold reforms of the international financial architecture are possible if political will exists to support them. Eighty years on from Bretton Woods, there is once again a need for bold thinking to ensure multilateral financial governance is fit for purpose.

In this Analysis, we have made the case for a new kind of multilateral bank that can tackle the triple crises of economic insecurity, climate change, and development, and provided the outlines of how and why such a bank might work. The Indo-Pacific is the right place to start, given its strategic importance, the presence of a number of established and emerging powers, and the strong alignment of our proposed IERB with existing policy agendas in the region.

Any proposal to create a new multilateral institution must be considered carefully given an already crowded landscape and competition over scarce public capital. As a next step, we therefore recommend a high-level, multi-disciplinary panel of experts be established to take the proposal forward. This could be commissioned by interested governments in the Indo-Pacific, ideally a relatively broad grouping such as those represented in IPEF, although a smaller grouping consisting of the Quad countries could also usefully take the idea forward in the first instance, with a view to achieving a wider founding membership.

Leading the establishment of the IERB would be a significant economic and foreign policy legacy for its founding governments. For the rising global powers of India and Indonesia, the IERB offers an important leadership opportunity that would bestow considerable prestige — similar to Japan in the 1960s with the ADB, and China last decade with the AIIB. For affluent Western democracies such as the United States and Australia, it would provide an opportunity to improve their influence and legitimacy in the Global South through a multilateralised version of their domestic industrial policies. It would also help them achieve their economic security and climate goals at lower cost. Most importantly, the new bank would provide a shared stepping stone towards a more secure, sustainable, and prosperous world.

Acknowledgements

The authors wish to thank A/Prof Emma Aisbett, Dr Arjuna Dibley, Dr Jenny Gordon, Dr Stephen Grenville AO, Prof Frank Jotzo, Dr Maxfield Peterson, A/Prof Llewelyn Hughes, Clemence Landers, Dr Lee V White, and two anonymous reviewers for their thoughtful peer reviews. Thank you to the Lowy Institute's Sam Roggeveen, Hervé Lemahieu, Clare Caldwell, Rob Walker, Ian Bruce and Stephen Hutchings for their editorial and publishing contributions to this Analysis. And a special dedication to Allan Gyngell from Chell; he was always in my thoughts when writing this Analysis, and I wish he were here to debate it with us.

Acronym glossary

ABD	Asian Development Bank
ARPA-E	Advanced Research Projects Agency – Energy
AIIB	Asian Infrastructure Investment Bank
ARENA	Australian Renewable Energy Agency
CEFC	Clean Energy Finance Corporation
CPTPP	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
DFI	Development Finance Institution
ECA	Export Credit Agencies
ESG	Environmental, Social, and Governance
EV	Electric Vehicle
IERB	Indo-Pacific Economic Resilience Bank
IMF	International Monetary Fund
IRA	Inflation Reduction Act
IPEF	Indo-Pacific Economic Forum
MDB	Multilateral Development Bank
SOE	State-owned Enterprise

Notes

- 1 Remarks by National Security Adviser Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution, 27 April 2023, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>
- 2 Brian Deese, “The Case for a Clean Energy Marshall Plan”, *Foreign Affairs*, 20 August 2024, <https://www.foreignaffairs.com/united-states/case-clean-energy-marshall-plan-deese>.
- 3 IEA, *Net Zero Roadmap: A Global Pathway to Keep the 1.5 °C Goal in Reach 2023 Update* (Paris: International Energy Agency, 2023), https://iea.blob.core.windows.net/assets/4d93d947-c78a-47a9-b223-603e6c3fc7d8/NetZeroRoadmap_AGlobalPathwaytoKeepthe1.5CGoalinReach-2023Update.pdf.
- 4 A. Bhattacharya et al., *A Climate Finance Framework: Decisive Action to Deliver on the Paris Agreement — Summary* (London: Grantham Research Institute on Climate Change and the Environment, London School of Economics and Political Science, 2023).
- 5 Roland Rajah, “Greening the World Bank”, *The Interpreter*, 15 March 2023, <https://www.lowyinstitute.org/the-interpreter/greening-world-bank>.
- 6 Chris Humphrey, “The Deeper Questions about China and the Multilateral Banks Underneath the Doing Business Controversy”, *ODI Expert Comment*, 5 October 2021, <https://odi.org/en/insights/the-deeper-questions-about-china-and-the-multilateral-banks-underneath-the-doing-business-controversy/>; Morris et al., “Mapping China’s Participation in Multilateral Development Institutions and Funds”, *Centre for Global Development Brief*, November 2021, <https://www.cgdev.org/sites/default/files/mapping-chinas-participation-multilateral-development-institutions-and-funds-brief.pdf>.
- 7 David A. Baldwin, *Economic Statecraft: New Edition* (Princeton University Press, 2020); Helen Mitchell, *A Modern Economic Statecraft Framework*, SSRN Scholarly Paper (Rochester, NY, 22 August 2023), <https://doi.org/10.2139/ssrn.4548008>; and Henry Farrell and Abraham L. Newman, “Weaponized Interdependence: How Global Economic Networks Shape State Coercion”, *International Security* 44, No. 1 (July 1, 2019): 42–79, https://doi.org/10.1162/isec_a_00351.
- 8 IEA, *The State of Clean Technology Manufacturing* (IEA, 2023), <https://www.iea.org/reports/the-state-of-clean-technology-manufacturing>.
- 9 IEA, *Global Critical Minerals Outlook 2024* (IEA, 2024), <https://www.iea.org/reports/global-critical-minerals-outlook-2024>.
- 10 “Global Dynamics”, Global Trade Alert, https://www.globaltradealert.org/global_dynamics/area_all/year-from_2020/day-to_0911.

- 11 While climate finance accounting frameworks are contentious, the goal appears to have been met in 2022.
- 12 “Indo-Pacific Economic Framework for Prosperity (IPEF)”, Office of the United States Trade Representative, Fact Sheet, <https://ustr.gov/trade-agreements/agreements-under-negotiation/indo-pacific-economic-framework-prosperity-ipef>. Note: While there are varying definitions of the Indo-Pacific encompassing the countries bordering on the Indian and Pacific oceans, in this paper we conceive the Indo-Pacific as stretching from South Asia through Southeast Asia and the Pacific to the United States.
- 13 World Bank, “Indonesia Country Climate and Development Report”, 28 April 2023, <https://www.worldbank.org/en/country/indonesia/publication/indonesia-country-climate-and-development-report>.
- 14 Dinita Setyawati, *Beyond Tripling: Keeping ASEAN’s Solar & Wind Momentum* (Ember, 2023), <https://ember-climate.org/app/uploads/2023/11/Report-Beyond-Tripling-ASEAN.pdf>.
- 15 John Larsen et al., “US Decarbonization Priorities in the Wake of the Inflation Reduction Act”, Rhodium Group, 9 February 2023, <https://rhg.com/research/us-decarbonization-priorities-in-the-wake-of-the-inflation-reduction-act/>.
- 16 Kenneth Gillingham and James Sweeney, “Market Failure and the Structure of Externalities (To Be Included in: *Harnessing Renewable Energy*, A. Jorge Padilla and Richard Schmalensee, (Eds),” 2010, 1–32; Ilmi Granoff, J. Ryan Hogarth, and Alan Miller, “Nested Barriers to Low-Carbon Infrastructure Investment”, *Nature Climate Change* 6, No. 12 (December 2016): 1065–71, <https://doi.org/10.1038/nclimate3142>.
- 17 Moody’s Investors Service, “IBRD (World Bank) — Aaa stable”, 11 February 2022, <https://thedocs.worldbank.org/en/doc/67aa115569be43f048cbdfc5b3e4b88d-0340022022/original/Moodys-IBRD-World-Bank-CA-February-2022.pdf>.
- 18 *Boosting MDBs’ Investing Capacity*, An Independent Review of Multilateral Development Banks’ Capital Adequacy Frameworks, 2022, https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf.
- 19 Chris Humphrey, “Are Credit Rating Agencies Limiting the Operational Capacity of Multilateral Development Banks?”, 2015, https://scholar.google.com/scholar_lookup?title=Are%20credit%20rating%20agencies%20limiting%20the%20operational%20capacity%20of%20multilateral%20development%20banks&publication_year=2015&author=C.%20Humphrey; William Perraudin, Andrew Powell, and Peng Yang, “Multilateral Development Bank Ratings and Preferred Creditor Status”, *IDB Publications*, 1 July 2016, <https://doi.org/10.18235/0011741>.
- 20 Chris Humphrey, “The Legal Underpinnings of MDB Callable Capital”, *ODI Working Paper*, January 2024, https://media.odi.org/documents/ODI_The_legal_underpinnings_of_MDB_callable_capital_v3.pdf.
- 21 World Bank, “IDA’s Hybrid Financial Model”, April 2024, <https://thedocs.worldbank.org/en/doc/fd778c7a7dae48239b6f88d4325ceba0-0410012024/original/IDA-financial-model-explainer-4-9-2024.pdf>.

- 22 Lawrence Summers and Nand Kishore Singh, *Strengthening Multilateral Development Banks: The Triple Agenda. Report of the Independent Experts Group* (G20, July 2023), https://www.cgdev.org/sites/default/files/The_Triple_Agenda_G20-IEG_Report_Volume1_2023.pdf.
- 23 Lawrence Summers and Nand Kishore Singh, *Strengthening Multilateral Development Banks: The Triple Agenda. Report of the Independent Experts Group* (G20, July 2023), https://www.cgdev.org/sites/default/files/The_Triple_Agenda_G20-IEG_Report_Volume1_2023.pdf.
- 24 M. Peterson and C. Downie, “The International Political Economy of Export Credit Agencies and the Energy Transition”, *Review of International Political Economy*, 2023, <https://doi.org/10.1080/09692290.2023.2272845>.
- 25 US International Development Finance Corporation, “DFC Announces Approval to Provide up to 500 Million of Debt Financing for First Solar’s Vertically-Integrated Thin Film Solar Manufacturing Facility in India”, 7 December 2021, <https://www.dfc.gov/media/press-releases/dfc-announces-approval-provide-500-million-debt-financing-first-solars>; and US International Development Finance Corporation, “Sourcing Critical Minerals to Support the Global Clean Energy Transition”, <https://www.dfc.gov/investment-story/sourcing-critical-minerals-support-global-clean-energy-transition>.
- 26 C. Tan, “Creative Cocktails or Toxic Brews? Blended Finance and the Regulatory Framework for Sustainable Development”, in *The Concept of Sustainability and Its Application in International Trade, Investment and Finance* (Edward Elgar Publishing Ltd., 2019), 300–330, <https://doi.org/10.4337/9781788971041.00023>.
- 27 CEFC, *Clean Energy Finance Corporation Annual Report 2014–15* (Sydney: Clean Energy Finance Corporation, 2015); CEFC, *Annual Report 2021–22. A Decade Leading Australia’s Energy Transition* (Sydney: Clean Energy Finance Corporation, 2022), <https://www.cefc.com.au/media/fq2prayo/cefc-annual-report-2021-22.pdf>.
- 28 Jamie Smyth, Harry Dempsey, and Myles McCormick, “Western Nations Join Forces to Break China’s Grip on Critical Minerals”, *Financial Times*, 23 September 2024, <https://www.ft.com/content/2984ae03-df15-420b-89cc-9ad8337014a9>.
- 29 Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, the Philippines, South Korea, Singapore, Thailand, the United States, and Vietnam.
- 30 Australian Department of Foreign Affairs and Trade, “IPEF Supply Chain Agreement”, November 2023, <https://www.dfat.gov.au/trade/organisations/wto-g20-oecd-apec/indo-pacific-economic-framework/ipef-supply-chain-agreement>.
- 31 Monica de Bolle, “Barring Pharmaceutical Imports from China Would Hurt the United States and the World”, Peterson Institute for International Economics, 22 February 2024, <https://www.piie.com/blogs/realtime-economics/2024/barring-pharmaceutical-imports-china-would-hurt-united-states-and>.
- 32 Jakob Hanke Vela and Jordyn Dahl, “Europe Gives China a Taste of Its Own Trade Medicine”, POLITICO, 18 June 2024, <https://www.politico.eu/article/europe-give-china-taste-its-own-medicine-ev/>.

- 33 *Global EV Outlook 2024 — Analysis* (International Energy Agency, 23 April 2024), <https://www.iea.org/reports/global-ev-outlook-2024>.
- 34 Michael Grubb, “Norway has a Chance to Transform Climate Finance”, *Financial Times*, 25 August 2023, <https://www.ft.com/content/c4bf95e2-6868-448d-bfca-5871dd2fb492>.
- 35 Karen Mathiasen, “Mining for GEMS”, Center for Global Development, 3 August 2023, <https://mdbreformaccelerator.cgdev.org/mining-for-gems/>.

About the authors



Michelle Lyons was a Research Fellow (part-time) in the Lowy Institute's Indo-Pacific Development Centre where she worked on international climate change policy and climate finance. She has more than a decade of experience working in the Australian Public Service and at the Australian National University on international and domestic climate change policy development, implementation and evaluation. Michelle is a member of the ANU Institute for Climate, Energy & Disaster Solutions.



Roland Rajah is Director of the Indo-Pacific Development Centre, a dedicated policy research centre within the Lowy Institute. The Centre is committed to producing fresh policy insights and ideas on the most pressing economic development challenges facing the Indo-Pacific region — principally focusing on the emerging and developing economies of Southeast Asia, the Pacific Islands and South Asia. He also serves as the Lowy Institute's Lead Economist, a position he has held since joining the Institute in 2017.



Grace Stanhope is a Research Associate in the Lowy Institute's Indo-Pacific Development Centre working on the Southeast Asia Aid Map, a tool that tracks and analyses foreign aid and development finance flows to Southeast Asia from 2015 onwards. Grace joined the Lowy Institute from the Australian Strategic Policy Institute in 2023 and previously worked as a sub-editor in the Federal Parliamentary Press Gallery. She holds a Bachelor of Politics, Philosophy and Economics and a Bachelor of Development Studies from the Australian National University.

LOWY INSTITUTE