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## Market Maker: The Role of China Development Bank in Incubating Market

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### Abstract

The present paper aims to use the case of China Development Bank (CDB) to tackle the fundamental question of why development banks in an effort to shed light on the broader debate about the role of state in economic development. By delving deeper into the role of CDB in incubating the market for long-term urban infrastructure investments, it argues that development banks can play an indispensable role in incubating markets especially in developing and transition economies where capital markets are underdeveloped and market institutions are flawed. This perspective goes beyond the conventional approach to justifying why development banks, i.e., fixing market failures. It further argues that realizing the role of market incubation requires at least two conditions: building “firewalls” within development banks to resist undue political influence; and designing incentives for development banks to exit when markets are mature in order to avoid suppressing financial development and crowding out private capital. It concludes that well-managed development banks can help to create synergies between state and market by creating incubating markets.

**Keywords:** China Development Bank; market incubation; urban infrastructure financing; development banks; New Structural Economics

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<sup>1</sup> Xu, Jiajun. Institute of New Structural Economics, Peking University, Beijing, China. “Market Maker: The Role of China Development Bank in Incubating Market.” *Man and the Economy* 4, no. 2 (2017): 1–23. <https://doi.org/10.1515/me-2017-0007>.